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REPORT ON HEADQUARTERS OFFICE ACCOMMODATION

SUMMARY

The present report on headquarters office accommodation has been prepared in accordance with Executive Board decision 1991/27 (E/ICEF/1991/15). It provides background information relating to the continuing critical office space situation at New York headquarters, reviews current office and warehouse space, gives long-term staff and space projections, and reviews discussions and negotiations held with the United Nations Development Corporation and the New York City Economic and Development Corporation with respect to UNICEF House, as well as related discussions with the United Nations Office of Legal Affairs. It describes a market study that was undertaken covering the possibilities of securing long-term, cost-effective space accommodations and provides information and financial data on various proposals.

The Executive Director's conclusions and recommendations are contained in paragraphs 104-112, which describe three possible options (paras. 105-107) requiring further negotiation and study. The Executive Director's comments on these three options are contained in paragraphs 109-111. He recommends that he report back to the Executive Board on this matter, through the Advisory Committee on Administrative and Budgetary Questions, either at the next regular session of the Board in April 1993, or at a special session of the Executive Board following the organizational session in February 1993. The key tables in the report are tables 1, 2, 6 and 12-17.

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INTRODUCTION

1. The present report on headquarters office accommodation has been prepared in accordance with decision 1991/27 (E/ICEF/1991/15) adopted by the Executive Board at its 1991 regular session. It follows two previous recommendations by the Executive Director in the past two years (E/ICEF/1990/AB/L.9 and E/ICEF/1991/AB/L.9) that aimed at solving the continuing critical office space problem at New York headquarters, both of which were not approved by the Board. The last proposal submitted to the 1991 session of the Board (E/ICEF/1991/AB/L.9) recommended, in effect, that UNICEF keep its current main New York headquarters at UNICEF House at 3 United Nations Plaza and lease the estimated additional space required for the next 10 years in a building to be chosen from among four suitable buildings identified at that time, all of which were located in the United Nations Development District in fairly close proximity to UNICEF House. This proposal was intended to meet the organization's office accommodation needs until July 2002, which is the expiration date of the current lease at UNICEF House, and included a recommendation to re-evaluate the organization's office space needs again between the years 1994-1996. At that time UNICEF could consider the possibility of consolidating all its headquarters into one facility in New York City or elsewhere.

2. The Advisory Committee on Administrative and Budgetary Questions (ACABQ) considered the recommendation of the Executive Director as outlined above and recommended in its report (E/ICEF/1991/AB/L.10), inter alia, that UNICEF should consider leasing the 14th and 15th floors at UNICEF House, which are currently used as apartments and rented by the United Nations Development Corporation (UNDC); that UNICEF should examine the possibility of the redeployment of all headquarters project staff performing project functions to field offices; that no additional space be rented at that time in view of the lease UNICEF has signed for space at 1 Dag Hammarskjold Plaza; and that in view of the projected high rental costs of UNICEF New York headquarters and warehouses for the years 1990-2000 in the amount of \$157.3 million, which they thought might likely be understated, the length of a proposed long-term lease of other buildings, the difficulties in operating from different headquarters buildings and the current low market rates, that a market study should be prepared. This study should include a cost-benefit analysis of the real estate market in New York and surrounding areas, comparing the purchase price and rental costs of suitable buildings. The Advisory Committee noted, in this connection, that all possible options for UNICEF headquarters accommodation should be evaluated before a long-term policy decision is taken by the Executive Board, taking into account the substantial costs involved, the long-term investment and assets of headquarters property compared to largely increasing rental costs and the implications for the effective management and operation of UNICEF from one central office location.

3. At the 1991 regular session of the Executive Board, there was almost unanimous endorsement of the recommendations made by the Advisory Committee. On the recommendation of the Committee on Administration and Finance, the

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Executive Board adopted decision 1991/27, in which, inter alia, it requested the Executive Director to present to the Board at its next session a proposal for a cost-effective, long-term office space strategy for central headquarters, which should include options, with reference in particular to growth, functional and operational decentralization and location. The proposal should take into account long-term staff projections, the organizational structure and operational needs, and the possibilities of securing long-term office space requirements, in particular, leasing, direct purchase, mortgage purchase or purchase of land and construction options, providing as accurately as possible, the comparative short- and long-term cost requirements.

4. In complying with the above request of the Board, the Executive Director has attempted to take into account the various observations and recommendations of the Advisory Committee contained in its report (E/ICEF/1991/AB/L.10), as well as the many concerns and views expressed by Board members at its 1991 regular session. In view of the complexities of this undertaking, the task has proved to be very difficult, and the possible options many. While the possibility of a high degree of cost-effectiveness was one of the principal objectives of the study, it is important to note that there were also other significant factors that had to be assessed and taken into account in the overall evaluation of the various possible options. These factors are described later in the present report.

5. The report does not include a survey of any locations beyond a 25-mile radius of the United Nations in New York City. UNICEF has received no offers or invitations for headquarters locations elsewhere in the United States or in other countries, and it is clearly beyond the Executive Director's authority to open negotiations with Governments without the Executive Board's recommendations in relation to: (a) the parameters of such negotiations; and (b) the criteria by which some, but not all, Governments would be approached.

6. The Executive Director wishes to point out that the highly commendable work undertaken thus far by the consultants and by UNICEF staff has concentrated mostly on financial aspects. This, he believes, was essential to clarify the basic framework against which the less tangible elements, which the Executive Board will need in making a decision, can be evaluated. These financial assessments, however, have taken longer to produce than originally estimated, given the generally downward trend of the New York area real estate market. This has opened up a series of new scenarios, each needing full investigation of its opportunity and potential. Thus, this report is mainly finance-based, including all of the relevant financial information available at the present time.

7. The Executive Director sees this report as an interim one, as is clear from his recommended options (see paras. 104-108 below), and is requesting the Executive Board to authorize him to continue, as well as to initiate, negotiations with a number of groups in the greater New York area. Any strong recommendation from him at this stage might weaken his negotiating position with one or the other of these groups. Therefore, he presents his options

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with a minimum of commentary on their advantages and disadvantages at this stage.

I. CURRENT UNICEF HEADQUARTERS AND GREETING CARD AND
RELATED OPERATIONS OFFICE ACCOMMODATION AND
WAREHOUSE/STORAGE SPACE

A. Current office and warehouse/storage space

8. The following consolidated summary table shows the details of the office and warehouse/storage space currently being leased for UNICEF headquarters and Greeting Card and Related Operations (GCO) in New York City and surrounding areas.

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Table 1

SUMMARY OF CURRENT UNICEF HEADQUARTERS AND GREETING
CARD AND RELATED OPERATIONS OFFICE ACCOMMODATION AND
WAREHOUSE/STORAGE SPACE

	<u>Number of rentable square feet</u>			<u>Expiration</u>	<u>Estimated</u>
	<u>Office</u>	<u>Warehouse/ storage</u>	<u>Total</u>	<u>date of lease</u>	<u>number of staff accom- modated</u>
<u>UNICEF headquarters</u>					
1. UNICEF House, 3 United Nations Plaza, NYC	180 491	-	180 491	30 June 2002	713
2. 1 Dag Hammaraskjold Plaza, NYC	23 528	-	23 528	28 Feb. 1993	80
3. Long Island City	-	26 000	26 000	31 July 1993	4
4. Park Avenue South, NYC	-	1 679	1 679	N.A. a/	-
5. Vacant posts that cannot be filled owing to the lack of available space (as of January 1992)					23
Subtotal (1-5)	<u>204 019</u>	<u>27 679</u>	<u>231 698</u>		<u>820</u>
<u>GCO</u>					
6. 333 East 38th Street, NYC	40 000	-	40 000	31 Dec. 2003	93
7. Secaucus, N.J.	-	44 000	44 000	30 June 1994	38
Subtotal (6-7)	<u>40 000</u>	<u>44 000</u>	<u>84 000</u>		<u>131</u>
GRAND TOTAL (1-7)	<u>244 019</u>	<u>71 679</u>	<u>315 698</u>		<u>951 b/</u>

a/ Not applicable as UNICEF occupies this space under a United Nations lease.

b/ See paras. 22 and 23 below.

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B. Existing UNICEF lease obligations

9. As indicated in table 1 above, some 70 per cent of the total space (about 220,500 rentable square feet) is covered by leases that expire in the years 2002 and 2003, nearly 10 years from now. The Office of Legal Affairs of the United Nations Secretariat has pointed out that any relocation of UNICEF headquarters must take into account the rights and obligations of UNICEF under its current lease. The lease for UNICEF House, covering 180,491 rentable square feet of space, expires on 30 June 2002, and the lease for GCO, covering 40,000 rentable square feet at 333 East 38th Street, expires on 31 December 2003. There is no provision in the UNICEF House lease for early termination during its initial 15-year term, which commenced on 1 July 1987, nor is there any early termination provision in the lease covering the premises located at 333 East 38th Street occupied by GCO. However, both leases contain provisions that would allow UNICEF, under certain conditions, to assign the leases or sublet the premises.

10. Thus, if a relocation of headquarters were contemplated prior to the year 2002, a means would have to be found to free UNICEF from its lease obligations, or at least to cover its obligations for rental payments by an appropriate assignment of the leases or through subletting the respective premises. While the 333 East 38th Street building is not exempt from New York City real estate taxes, the cost of which is passed on to tenants through an escalation provision in the lease, UNICEF House is exempt from such taxes. Therefore, in the case of UNICEF House, it would be desirable to attempt an appropriate assignment of the lease to an entity enjoying similar privileges, immunities and exemptions as UNICEF, especially as regards taxation.

11. In addition to the possibility of assignment of the lease or subletting the premises, a prospective landlord or owner of possible alternative leasing options, which are discussed later in this document, may, during the final negotiating process, offer to assume either all or part of the existing financial obligations of UNICEF under the current leases. However, because of the relatively long unexpired period of the two leases, it is unlikely that they would assume financial responsibility for the entire amount. It would be more likely that they might offer to assume part of the total cost.

12. The market study that was undertaken in connection with the preparation of the present report is contained in paragraphs 56 to 92 below. This study was based on the assumption that if UNICEF were to relocate its headquarters, the effective date of the relocation would be 1 January 1995. The total rental obligations of UNICEF under the UNICEF House lease and the GCO leased premises at 333 East 38th Street for the unexpired portions of the two leases are given in paragraphs 49 and 51 below. In connection with the unexpired portions of the two leases, it should be noted that a possible relocation would probably not take place before 1 January 1995 and, therefore, the unexpired portions of the leases would be 7 1/2 years for UNICEF House and 9 years for GCO. Moreover, whatever lease obligations that cannot be assumed have to be looked at in relation to the possible savings of alternative premises.

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13. However, it should be noted that UNICEF House is a very modern, "high-tech" building, located in the United Nations Development District in close proximity to the United Nations Headquarters building, and any prospective future tenant would not be subject to New York real estate taxes, provided the tenant enjoys the same real estate tax exemption status as UNICEF. For those reasons, it is likely that it would be possible for UNICEF either to assign the lease or to sublet most, if not all, of the space at UNICEF House to another tax-exempt tenant. UNICEF has informed the United Nations, the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA) about the office accommodation study that is currently being undertaken, and about the possibility that office space at UNICEF House may be unavailable for assignment or underletting under article 45 of the UNDC/UNICEF lease, in the event that UNICEF finds more cost-effective alternative accommodation elsewhere.

14. Although the space leased by GCO at 333 East 38th Street is not exempt from New York City real estate taxes, the average base rental cost for this space over the term of the lease (1991-2003) is approximately \$26.00 per square foot, which is quite reasonable for a midtown Manhattan location within the proximity of the United Nations Headquarters site, even in the current depressed real estate market.

C. Legal implications of the possible relocation of UNICEF headquarters

15. The Office of Legal Affairs of the United Nations Secretariat has informed UNICEF that relocation of UNICEF headquarters in the United States, but outside New York City, could well require the negotiation of a new agreement with the Government of the United States to cover the new UNICEF headquarters, as it is considered doubtful whether such new headquarters could be incorporated in the existing headquarters agreement. Relocation to another country would also require either incorporation of the new headquarters into an existing headquarters agreement with that country if one currently exists, if that is feasible, or the conclusion of a new agreement. Furthermore, UNICEF has been informed by the Office of Legal Affairs that prior consultations would have to take place with the United States Government with respect to any proposed acquisition of premises within the United States outside the existing Headquarters District. The Office of Legal Affairs has also stressed that it is important that the United States' authorities be fully informed of the steps being taken by the UNICEF secretariat in implementation of the Executive Board decision. Some detailed briefings have taken place in this regard.

Travel restrictions

16. In addition, the Office of Legal Affairs has also pointed out that in New York there are currently certain host country restrictions on travel by nationals of certain countries employed by the United Nations and United Nations agencies, including UNICEF. They have indicated that UNICEF will have

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to take into consideration the impact that the application of the travel restrictions would have in the event of a relocation of UNICEF in New York outside Manhattan. According to the Office of Legal Affairs, whether the United States Government would modify its application of those restrictions in the light of an eventual relocation of UNICEF headquarters cannot be foreseen.

17. Regardless of the location and travel restrictions referred to above, the analysis and conclusions reached in this report have been based on the assumption that if significant long-term accommodation cost savings can be achieved by locating outside the United Nations Headquarters District, UNICEF would be allowed to pursue such opportunities, and that an appropriate new agreement with the host country could be concluded that would allow UNICEF legally to occupy space within the areas reviewed in the present report.

Possible mortgage purchase

18. The Executive Director also requested advice from the Office of Legal Affairs with respect to the legal implications of a possible "mortgage purchase", which is one of the possibilities mentioned in Executive Board decision 1991/27, as well as in the report of the Advisory Committee (E/ICEF/1991/AB/L.10). The Legal Office understands "mortgage purchase" to refer to the borrowing of funds by UNICEF to pay the purchase price, with a mortgage of the premises as security for the loan. They have indicated that such borrowing is not presently within the authority of UNICEF. They have also informed UNICEF that although borrowing authority could, in principle, be given by the General Assembly, past experience shows a fundamental reluctance on the part of the General Assembly to do so. On the rare occasions when borrowing authority has been given, it has been closely circumscribed and restricted. Moreover, they have indicated that, with certain unique exceptions, the authority has generally been limited to borrowing from accounts and funds of the organization (United Nations), and that authority has never been given to borrow from private commercial sources.

19. Also in the opinion of the Office of Legal Affairs, even if UNICEF did have the authority to borrow, an additional obstacle would effectively prevent its obtaining a mortgage. This obstacle relates to a certain provision of the Convention on the Privileges and Immunities of the United Nations, which would effectively prevent a commercial bank or lender from foreclosing on the mortgage in the case of default on the underlying loan.

Lease/purchase

20. Paragraphs 55 and 76 below describe financial structures associated with the possible acquisition of premises whereby UNICEF could acquire ownership of a property at the end of a lease term without the necessity of borrowing, but through regular private sector financing. It is the understanding of UNICEF that such a type of transaction has already been accepted by the Office of Legal Affairs with respect to the planned construction of United Nations common premises at Kinshasa. The construction project, on land donated to the United Nations by the Government of Zaire, is leased to a developer who would

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thereafter lease the premises to the United Nations under a 15-year lease agreement. At the end of the lease term, ownership of the building would pass to the United Nations for a nominal amount of money.

II. LONG-TERM STAFF AND SPACE PROJECTIONS

21. ACABQ noted in its report (E/ICEF/1991/AB/L.10) referred to in paragraph 2 above, that UNICEF, including GCO, was operating at that time from four different buildings in Manhattan, which was considered inefficient and which it was felt entailed operational difficulties as well as additional costs, which UNICEF fully recognizes. In response to their concerns and the concerns of the Executive Board in that regard, one of the main objectives of the study, which has recently been undertaken, was to attempt to find a suitable cost-effective office accommodation option that would enable UNICEF to consolidate all of its space needs in one or two locations. Therefore, the staff and space projections that follow in table 2 below take into account all UNICEF requirements.

22. Table 2 shows UNICEF estimated long-term staffing and warehouse/storage needs projected to the year 2010. The staff/occupant figures given for 1991 in columns 2, 5 and 8 are estimates of actual occupants as of January 1992 (including 23 vacant posts that cannot be filled owing to the lack of available space (see table 1, line 5, above)). A breakdown by location of the "staff/occupants" is given in table 1 above. The term "staff/occupants" has been used because not all of the occupants of the different premises are actually UNICEF staff members. For example, the figure of 131 in column 5 includes 30 production workers who are provided to GCO by an agency; they are not UNICEF staff members. Also, the figure of 820 in column 2, shown for the year 1991 under "UNICEF headquarters", includes some staff from other agencies such as the World Health Organization (WHO), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the New York Metropolitan Committee for UNICEF, as well as travel agency staff, who are not included in the UNICEF staffing tables, and 23 vacant posts which cannot be filled because of the lack of available office space (see table 1, line 5 above). The space requirements to accommodate the 23 vacant posts would amount to approximately 6,000 gross rentable square feet.

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23. In addition, it should be noted that the "staff/occupant" figures for UNICEF headquarters for the year 1991 (column 2) include core staff (established posts), headquarters-based project posts (financed either from general resources or supplementary funds), short-term General Service staff, some short-term Professional consultants and staff awaiting re-assignments, who are temporarily assigned to headquarters.

24. The occupancy growth figures shown for UNICEF headquarters of 820 for year-end 1991, and 842 for 1995, represent an average increase of 1.0 per cent per annum. The increases thereafter over the 15-year period 1996-2010 have been projected at an average rate of approximately 2.6 per cent per annum. In the office accommodation recommendation submitted to the 1991 regular Board session (E/ICEF/1991/AB/L.9, table 1), the growth rate for UNICEF headquarters was projected at an average annual rate of 3.7 per cent for the years 1990-1995. Therefore, the estimated growth rate indicated above for these years is 2.7 per cent less than last year's projections.

25. For the 10-year period 1980-1990, the actual growth rate for UNICEF headquarters staff has averaged about 4.5 per cent per annum. While it is recognized that this rate of growth is not likely to continue in the future, it is the view of the Executive Director that it would not be realistic or prudent to project future growth at levels any lower than the 1.0 and 2.6 per cent levels used in the projections shown in table 2. It should be noted that the rapid growth of UNICEF resources and work to its current levels was not foreseen during the planning stages of UNICEF House in the years 1982 to 1983. The occupancy of UNICEF House did not occur until 1987, four years after the planning took place. As a result of this unforeseen growth, UNICEF House is no longer adequate to meet the organization's space requirements. The staff growth estimates used above are considered minimum and reasonable projections, in line with the Board's desire to limit increases in staff at headquarters.

26. Although GCO is an integral part of UNICEF, its operations and functions differ markedly from the main programme activities of UNICEF. It is operated like a business to achieve net profits as high as possible from the sale of greeting cards and related items. As noted in the GCO work plan and budget for 1991 (E/ICEF/1991/AB/L.6, para. 1), GCO is currently achieving new records in volume and net profits and has broadened its responsibilities in private sector fund-raising and in special fund-raising events and new initiatives. Because of its history of dramatically increasing sales of cards over the years, and the prospects for continued success in the future, its staffing growth rate has been projected in table 2 above at an average rate of approximately 4.8 per cent per annum.

27. Column 8 of table 2 above gives the "staff/occupant" projections for UNICEF headquarters and GCO on a combined basis, which represent an annual average growth rate of about 2.7 per cent.

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28. Table 2 above gives long-term projections of rentable square feet of office and warehouse/storage space requirements to the year 2010. The estimated office space requirements have been based on the staff/occupant forecasts, also included in the table. The total warehouse/storage requirements have been estimated on the basis of expected needs.

29. It should be noted that the figure of 713 staff accommodated at UNICEF House in table 1, line 1, above, represents an increase of 25 over the number accommodated in 1991. This increased capacity has been achieved through downsizing a number of workstations and making better utilization of the current space at UNICEF House as suggested by the Advisory Committee in its 1991 report (E/ICEF/1991/AB/L.10)

III. RESULTS OF DISCUSSIONS AND NEGOTIATIONS WITH THE UNITED NATIONS DEVELOPMENT CORPORATION AND THE NEW YORK CITY ECONOMIC DEVELOPMENT CORPORATION

30. As recommended by the Advisory Committee, the UNICEF secretariat has, in meetings with UNDC, explored the possibility of converting the 14th and 15th apartment floors at UNICEF House into office space. In addition, during those meetings, UNICEF took the opportunity to discuss other matters relating to the existing UNICEF/UNDC lease for UNICEF House. At those meetings, UNDC officials were informed of UNICEF Executive Board decision 1991/27 on headquarters office accommodation, and that the UNICEF secretariat, in response to that decision, was undertaking a comprehensive study to explore all possible options for a cost-effective, long-term office space strategy. In addition to the apartment issue, UNICEF enquired at these meetings whether UNDC would consider restructuring the current lease at lower rental rates in view of the fact that rental rates in New York City have recently declined significantly. In addition, the cost of municipal bond financing has declined owing to significantly lower interest rates compared with rates during the past four or five years. Also discussed was the possibility of UNDC discontinuing charging UNICEF a \$2.00 per square foot contingency charge imposed under article 40 of the UNICEF/UNDC lease, as well as the possibility of UNICEF receiving rent reductions under article 42, and whether UNDC would release UNICEF from its lease obligations for UNICEF House in the event that UNICEF found less costly accommodation elsewhere. Lastly, UNDC has been asked whether UNICEF could acquire ownership of UNICEF House either through direct purchase or by other means.

A. Offer to reduce rental rates under the current United Nations Development Corporation/UNICEF lease

31. Discussions with UNDC regarding these matters began in August 1991 and have been ongoing since then. On 28 February 1992, the President of UNDC met with the Executive Director and made the following offer to UNICEF, which was confirmed in writing on 9 March 1992. In exchange for a lease commitment from

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UNICEF up to 30 June 2017, which includes the 15-year option extension in its current lease, UNDC would:

(a) Cap the base rent for existing space of 180,491 gross square feet at \$35.50 per square foot;

(b) Eliminate the \$2.00 contingency charge under article 43 of the lease;

(c) Establish a fixed rental rate of \$28.00 per square foot for the two apartment floors, which would be converted to office space, thereby adding approximately 23,500 gross square feet to the total of 180,491 gross square feet currently leased;

(d) Contribute up to a maximum of \$1.0 million towards the conversion of the apartment floors into office space. (UNICEF would have to also pay about \$1.0 million.)

32. According to UNDC, UNICEF would, under the above conditions, save \$28.0 million in nominal terms over a 20-year period, i.e., 1 July 1993 to 30 June 2013, and \$38.5 million in nominal terms to 30 June 2017, compared with the terms contained in the existing lease.

33. Table 3 below illustrates the above UNDC proposal.

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Table 3UNICEF HOUSE BASE RENTAL RATES PER SQUARE FOOT
(INCLUDING \$2.00 CONTINGENCY CHARGE)

(In United States dollars per square foot)

		Current lease	Latest UNDC proposal noted above	Proposed rent reduction per	
				sq. ft.	%
<u>First 15 years of lease</u>					
Years 1-2	(3 July 1987- 30 June 1989)	27.00	N.A.	-	-
Years 3-6	(1 July 1989- 30 June 1993)	35.50	35.50	-	-
Years 7-10	(1 July 1993- 30 June 1997)	37.50	35.50	2.50	7.0
Years 11-15	(1 July 1997- 30 June 2002)	41.50	35.50	6.00	14.4
<u>15-year lease extension option</u>					
Years 1-5	(1 July 2002- 30 June 2007)	44.50	35.50	9.00	20.2
Years 6-10	(1 July 2007- 30 June 2012)	47.00	35.50	11.50	24.5
Years 11-15	(1 July 2012- 30 June 2017)	49.50	35.50	14.50	29.3

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B. Possible conversion of the 14th and 15th floors from residential to office use

34. It should be noted that the possible conversion of the 14th and 15th floors at UNICEF House from residential to office use would not meet UNICEF long-term projected space requirements. After careful study and evaluation, it has been ascertained that the possible conversion of this residential space into office space would not be cost-effective, as alternative space is available at much less cost. Even if it were decided that UNICEF should remain at UNICEF House, it would be more cost-effective to meet future growth requirements at one of the option locations identified in the study, as described below. Even though UNDC has offered to pay up to a maximum of \$1.0 million towards the total costs of converting the two apartment floors into office space, it is estimated that UNICEF would also have to pay an equivalent amount. If the total costs were to exceed \$2.0 million, UNICEF would have to pay the difference.

C. Financial analysis of the United Nations Development Corporation leasing proposal (excluding two apartment floors)

35. The above modified leasing proposal by UNDC, excluding the two apartment floors, is identified in the remainder of the present report as the "revised base case" (see paras. 59 and 60 below). Appropriate tables follow below in chapter IV, which give financial comparisons between the "base case" (existing UNDC/UNICEF lease) and the "revised base case", compared with various other proposals received (see especially table 6 below).

D. Possible rent reductions

36. With reference to article 42 of the lease concerning possible rent reductions, also mentioned in paragraph 30 above, UNDC has indicated that, given the nature of this provision under the lease, which provides for the possibility of an annual rent reduction to UNICEF in the event that certain surplus monies are available to UNDC that are not used or allocated by the UNDC Board of Directors for corporate purposes, it is impossible for UNDC to commit to future rent reductions at that time. At the same time, assurance was given that, as UNDC needs permit, rent reductions under article 42 of the lease will be forthcoming. However, UNICEF is aware that UNDC has been generating significant surplus monies in its overall operations, and that about \$25.0 million have been spent on capital improvements to the United Nations Plaza Hotel, which is located in the UNDC-2 building.

E. Possible release from lease obligations

37. In the light of its own fiduciary obligations, UNDC has informed UNICEF that it cannot release UNICEF from its lease obligations. If, however, UNICEF arranges to assign the lease or sublet all or part of the demised premises in accordance with the applicable provisions of the lease agreement, UNDC would be prepared to cooperate fully with UNICEF in making the necessary arrangements.

F. Discussions with the New York City Economic Development Corporation

38. Discussions have also been held on the office accommodation matter with officials of the New York City Economic Development Corporation (NYCEDC), which was also invited to submit proposals to UNICEF for consideration. On 5 March 1992, the Executive Director met with the Mayor of New York City on this issue. At that meeting, the Mayor instructed the President of NYCEDC to make every effort to ensure that UNICEF does not relocate its headquarters' offices outside of New York City. The Mayor also indicated that he did not see any reason why UNICEF could not acquire ownership of UNICEF House.

G. Joint offer from the United Nations Development Corporation and the New York City Economic Development Corporation to enable UNICEF to acquire ownership of 3 United Nations Plaza (UNICEF House)

39. On 7 and 14 April 1992, subsequent to the above negotiations and developments, the Executive Director received a joint proposal from the President of NYCEDC and the President of UNDC. The salient points of the joint proposal are as follows:

(a) The term of the UNDC/UNICEF lease would be extended to at least the year 2017 or, alternatively, to the date on which all UNDC bonds are paid. The UNDC leasehold interest in 3 United Nations Plaza expires upon payment of all UNDC bonds, which, under its current financings, must occur no later than 1 July 2026. It is possible that UNDC will pay all of its bonds before 2026 and thus that the UNDC interest in the building will expire before 2026. In fact, current projections by UNDC investment bankers indicate that all bonds will be paid in 2024. It is the understanding of UNICEF, after seeking clarification by telephone, that this date could be earlier or possibly later than the years 2024 or 2026, depending on the economic performance of the Corporation (which includes the United Nations Plaza Hotel) over the time span. Therefore, UNICEF has no assurance as to exactly when that date will be;

(b) The current article 53 of the lease giving UNICEF a cancellation right during the extension term would be cancelled;

(c) UNICEF would have the right to add the two apartment floors to its total space and convert these two floors to office use. UNDC would contribute 50 per cent of UNICEF costs in converting the space, to a maximum of \$1.0 million;

(d) UNICEF base rent for its current space (180,491 gross square feet) would be permanently fixed at \$35.50 per square foot until the end of the UNDC leasehold interest at 3 United Nations Plaza (see subpara. (a) above);

(e) If UNICEF were to decide to convert the two apartment floors, UNICEF would be required to pay rent for the two floors after they were vacated and turned over to UNICEF, and during the renovation/construction period;

(f) Article 40 of the lease (maximum of \$2.00 per square foot contingency increase in the base rent) would be eliminated;

(g) On the expiration of the UNDC leasehold interest in 3 United Nations Plaza (see subpara. (a) above), the City of New York and UNDC would be prepared to transfer ownership interest in the building (excepting the garage space) to UNICEF, subject to a reversion of ownership to the city only in the event that the building ceased to be used for the worldwide headquarters of UNICEF. If UNICEF decided not to convert the apartment space, then the apartment space, like the garage space, would be excluded from the ownership interest transferred to UNICEF under the UNDC proposal. Thereafter, UNICEF would no longer have to pay the base rent of \$35.50 per square foot, but would have to pay the operating costs of the building, which are currently estimated at about \$9.75 per square foot. This operating cost per square foot would, of course, increase each year due to general increases in such costs. Also, if UNICEF owned the building, UNICEF would be responsible for its maintenance and the cost of building management (this would also apply to other possible ownership options discussed in the present report);

(h) If UNICEF so desired, its ownership interest in 3 United Nations Plaza, as described above, could extend to the urban plaza adjacent to the building, with UNICEF being required to maintain and operate the plaza as a public space in accordance with all applicable provisions of the New York City zoning resolution;

(i) UNICEF would be required to make a commitment to New York City with respect to both its headquarters and all other key operations currently located in the city. That is, if UNICEF leased a second building to supplement the space at UNICEF House, it would have to be in New York City;

(j) The approval process for the above offer would take approximately one year.

H. Assessment of the United Nations Development Corporation/New York City Economic Development Corporation "ownership" proposal

40. Since the above "ownership" proposal involves a time-span of approximately 32 to 34 years, a separate financial analysis of it has been prepared for the present report, which is covered in paragraph 78 below.

41. As noted in paragraph 30 above, UNICEF raised the question with UNDC about the possibility of direct purchase of 3 United Nations Plaza, as another possible option, and whether any part of the approximately \$27.0 million UNICEF has already paid to UNDC could be taken into account as a credit towards the purchase price. The UNDC reply to that question, which was received by UNICEF on 14 April 1992, is outlined below.

42. The UNDC proposal contemplates UNICEF obtaining the ownership interest in 3 United Nations Plaza upon payment of all UNDC bonds, without any additional payment required of UNICEF at that time. Thus, the application of UNICEF rent payments as credits towards the purchase price was not addressed by UNDC. Until UNDC bonds are paid, UNDC cannot relinquish its leasehold interest in 3 United Nations Plaza without a refinancing of its phase II/III bonds (currently outstanding in the principal amount of \$125,935,000), as revenues from 3 United Nations Plaza are pledged as security for the bondholders under the phase II/III financing documents. Under all the circumstances, including current market conditions, UNDC and its investment bankers do not believe that such a refinancing would be cost-effective at this time. UNDC periodically asks its investment bankers to study the feasibility and potential economic benefits of refinancing its phase II/III, as well as its phase I, bonds. If UNDC decides at any time to undertake a refinancing of its phase II/III bonds, and if the terms of the refinancing permit a separation of the phase II and phase III projects, UNDC and the City of New York would be prepared to give UNICEF the option to purchase 3 United Nations Plaza at that time, subject to agreement then on all terms of the option and to the conditions of ownership set forth in the UNDC proposal of 7 April 1992. All option terms would depend on all the circumstances at the time of the refinancing.

IV. STUDY COVERING POSSIBILITIES OF SECURING COST-EFFECTIVE, LONG-TERM SPACE ACCOMMODATIONS

A. Selection of real estate consulting firm to assist with the study

43. As was the case last year, because of the complexity and the commercial real estate aspects of Executive Board decision 1991/27, as well as the very significant potential financial implications involved, the secretariat considered it necessary to seek outside expertise to assist UNICEF in undertaking a comprehensive study to meet fully the requirements of this decision. To that end, a request for proposal, containing detailed terms of

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reference for the assignment, was prepared by UNICEF and sent to six major international real estate consulting firms. Five proposals were received, and the lowest cost offer was accepted from a highly reputable real estate company with offices located world wide and the ability to deal with real estate markets outside the United States. The New York office of this firm deals with real estate consultancy services only, and the firm emphasized in its submission that, if engaged, it would not submit any real estate proposals for the project, nor represent any real estate firms that might submit proposals, which could possibly create a conflict of interest.

Purpose of assignment

44. The firm selected was requested to prepare a study covering the possibilities of UNICEF securing cost-effective, long-term office requirements for its headquarters, in particular leasing, direct purchase, mortgage purchase or other methods of possible acquisition (sale-leaseback, condominium purchase, joint venture partner, etc.), or purchase of land and construction options, providing as accurately as possible, the comparative short-term (5 to 10 years) and long-term (20 years) cost requirements, taking into account current UNICEF leases in New York City and surrounding areas. The firm commenced work on the study on 9 September 1991. Since its report, together with attached appendices, contains in excess of 100 pages, it is not feasible to reproduce it here in its entirety. Included below is a description and explanation of the methodology and assumptions used in preparing the study.

B. Location criteria

45. Notwithstanding the legal implications of a possible relocation of UNICEF headquarters outside the existing Headquarters District as noted in paragraph 15 above, the Executive Director has decided to respect the spirit of Board decision 1991/27 by interpreting it broadly. This interpretation is also in line with the recommendation of ACABQ contained in paragraph 64 of its report (E/ICEF/1991/AB/L.10), which stated "that a market study should be prepared, including a cost-benefit analysis of the real estate market in New York and surrounding areas, comparing the purchase price and rental costs of suitable buildings". The Advisory Committee also noted that "all possible options for UNICEF headquarters accommodation should be evaluated before a long-term policy decision is taken by the Executive Board ...". Consequently, in undertaking this study, the scope of decision 1991/27 was interpreted to contemplate a possible relocation and consolidation of UNICEF headquarters outside New York City, including potential locations within a 25-mile radius of the United Nations Headquarters site. Although the study included two possible overseas locations, which were investigated in a very preliminary way, the results were mostly inconclusive and, therefore, are not included in the report. It should be noted that with regard to possible overseas options, as of the end of March 1992, no direct offers of either cost-free space or donations of land and/or facilities have been made to UNICEF. Even if offers of "free" accommodations were received, a careful study would have to be made of the total possible financial implications, including possible operating and

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maintenance costs of rental free space, staff costs compared with New York, the cost of duplicating all the services that UNICEF is now provided with by the United Nations in New York, the cost of removal and relocation, the loss of time and disruption of work. In addition, there would also be other very important non-financial factors that would have to be taken into account before such a possible option could be considered, plus the loss of the significant investment made in the training of existing staff and the additional investment that would be required to train new staff, etc.

C. Assumptions and considerations

46. The following paragraphs describe the assumptions and the conditions for dealing with current lease obligations, organizational structure and location strategy of UNICEF that the consultant firm used as a basis for the development of the conclusions and the evaluation of the proposals. It should be noted that a major deviation with respect to any one of these items would materially affect the analysis and conclusions.

Current lease obligations

47. A major consideration in the analysis and evaluation of the proposals received were the financial implications of the existing lease obligations at UNICEF House and at 333 East 38th Street, where GCO offices are currently located. The initial 15-year term of the UNICEF House lease does not expire until 30 June 2002, and the GCO lease does not expire until 31 December 2003 (see paras. 9-14 above). There were no proposals submitted that would assume both lease obligations, and only a few that would consider assuming the GCO lease. However, the cost of assuming the GCO lease was taken into account in the cost structure of the proposals offered. To facilitate the analysis and to compare each proposal equally, the following assumptions were made for every proposal with regard to each of the above leases.

UNICEF House lease

48. The assumption was made that if UNICEF were to make a decision before the end of the year 1992 to vacate UNICEF House by the end of 1994, the space currently occupied by UNICEF could be assigned or sublet either to interested Permanent Missions to the United Nations, other United Nations bodies or possibly non-profit non-governmental organizations affiliated with the United Nations. The consultants believe that this is a reasonable assumption and that UNDC would cooperate with UNICEF in this regard, if vacating UNICEF House was deemed to be in the best interests of UNICEF. If this effort were successful, UNICEF financial lease obligations at UNICEF House would no longer exist beyond the end of 1994, and there would, therefore, be no costs incurred by UNICEF, or by others on behalf of UNICEF, with regard to the lease. The consultants believe that the prominent and convenient location of the building will be attractive to those United Nations missions and affiliated organizations who are currently seeking office space in the United Nations Development District.

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49. If the UNICEF House lease obligation had to be completely paid by UNICEF, the present value* cost for the period 1995-2002 would be approximately \$31 million. This cost would have to be added to the present values of each of the proposals considered and, as indicated in the financial analysis of the proposals in the present report, would make the decision to consolidate operations and vacate UNICEF House roughly equivalent to maintaining the existing premises. In the majority of the cases, it would also have the effect of making previously considered favourable proposals unfavourable.

50. As noted in paragraphs 31-33 above, if UNICEF House were to be retained, UNDC would offer a fixed base rent of \$28.00 per square foot for the 14th and 15th floors currently used as apartments, and a reasonable workletter (renovation) allowance of half of the total estimated cost of \$2.0 million to convert the floors for office use. This conversion would add 23,500 square feet to the total of 180,491 square feet currently occupied by UNICEF. These cost estimates were used to calculate the present value of what is called the "alternate base case" in this report, which is defined below. The existing lease structure for the original space at UNICEF House would remain, including eight years of the 15-year lease renewal option beyond the year 2002, to the year 2010. Beyond the year 2002, the assumption was made that the base rental of \$28.00 per square foot would be fixed for the 14th and 15th floors.

333 East 38th Street lease

51. Several of the proposals that were submitted indicated that an assumption of the 333 East 38th Street lease was included as part of the offer in exchange for the UNICEF commitment to a long-term lease for the location noted in the proposal. These proposals identified the incremental cost to the proposal for this assumption. It was assumed that for purposes of financial analysis, therefore, any proposal could be modified or negotiated to require the assumption of this lease by the new landlord. Therefore, an estimate of \$2.00 per rentable square foot per year was added to many of the proposals that did not offer to assume this lease. The consultant firm believes that this amount would be sufficient to amortize the remaining lease obligation from either year-end 1993 or year-end 1994 to its expiration in 2003. For reference purposes, the present value of the lease term at this location from 1994 to its expiration is approximately \$5.6 million.

* "Present value" figures in this case take into account the value of money at an estimated interest rate of 10 per cent over the projected period of time. The technical definition of this term, as it relates to this study, is "the costs expressed in 1991 United States dollars of the total annual costs for the 1991-2010 period discounted at the rate of 10 per cent".

Other lease obligations

52. All other lease obligations are such that most proposals did not have to be concerned with their exposure as the lease may expire or be caused to expire as a commitment was made to new space. For example, the lease at 1 Dag Hammarskjold Plaza could be either renewed or allowed to expire as required to facilitate the move to new space at UNICEF. The warehouse leases by their nature are very flexible, and as their rates, including their cost of operation, are so reasonable in many instances, they were retained and renewed. The liability of any remaining unexpired term was considered to be negligible to the analysis and to the development of a conclusion.

Organizational structure

53. The consultant firm has indicated in its report that inherent in the analysis is the basic assumption that the organization of UNICEF headquarters will remain in its present configuration, more or less. It has noted, in reviewing various UNICEF documents and reports, the consideration of possibly redeploying project staff performing project functions to field offices, and the possibility of certain functional and operational decentralization. The implications of a reorganization of this magnitude, or of a policy of zero growth of headquarters staff is, needless to say, significant to the analysis and conclusions of its report. It has noted, however, that historically the organization as a whole has grown and that, in particular, the need to support field offices with headquarters staff will continue to grow. Nevertheless, the above is stated as a major consideration in the study.

54. It should be noted, however, that the results and conclusions of the study indicate that, even if UNICEF were to adopt a policy of zero growth for its headquarters staff, a number of the short-listed proposals are still more cost-effective than maintaining the existing offices.

Financial structures for acquisition

55. The financial structure associated with the acquisition of premises was another important consideration for purposes of developing the conclusions of the study. Notwithstanding the advice from the Office of Legal Affairs of the United Nations Secretariat regarding a possible mortgage purchase as outlined in paragraphs 18 and 19 above, the consultants' firm has assumed, however, that a lease transaction structure could be developed that would in essence secure freehold title to the property at the end of the lease term and that such a structure would be within the authority of UNICEF to commit (see para. 20 above). This form of lease structure is common and there are various sources of low-cost funds that make this an attractive consideration for UNICEF. Virtually any lease transaction, whether currently in place or anticipated, can be modified to include this provision without incurring any liability beyond that normally committed to in a long-term lease agreement. Again, should a legal obstacle or internal policy disallow the above structure, the analysis and conclusions would be affected. Although there would still be favourable "lease only" opportunities available, the ability to

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acquire an ownership interest at the end of a similar lease term is obviously very advantageous.

D. Market survey of New York and surrounding areas

Solicitation of proposals

56. In order to develop alternative premises strategies, a study was undertaken which involved the solicitation of proposals from real estate agents, owners and developers, as well as banks and corporations that would offer to accommodate the long-term space requirements of UNICEF, as projected in table 2 above, to at least the year 2010. Over 70 firms and individuals in the metropolitan New York area were solicited, which submitted 34 proposals that were reviewed. All of the proposals offered long-term lease accommodation, with several also offering UNICEF equity participation, direct purchase or lease purchase of the building or development offered. The following is a breakdown of the number of proposals received by area or region:

United Nations	-
Development District	4
Midtown Manhattan	6
Downtown Manhattan	3
Westchester County	7
New Jersey	7
Queens	3
Brooklyn	2
Long Island	1
Connecticut	<u>1</u>
Total	<u>34</u>

In addition to the 34 proposals listed above, other attractive proposals may be submitted. These will be reviewed and considered at the time they are received.

Basic criteria

57. The basic criteria established by UNICEF were:

(a) That the building or development be located within a radius of approximately 25 miles of the United Nations Headquarters site in New York City;

(b) That ideally the accommodations be available on or about January 1995;

(c) That the cost structure of the proposals provide for long-term (minimum 20 years), cost-effective accommodations to satisfy the space

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requirements projected by UNICEF for short-, intermediate- and long-term needs, as and when required;

(d) That the ideal configuration would be to consolidate all of the functions and current accommodation of UNICEF in New York and surrounding areas in one centralized location, or two locations if the warehouse and storage functions could be accommodated in less costly space within approximately five miles of the office accommodation location.

Analysis of proposals

58. Prior to reviewing the proposals, an understanding of the basis for comparison had to be developed. It is this basis for comparison, or "base case scenario" as it is identified in the balance of the report, that establishes the value upon which to determine whether a proposal should be seriously considered. In order to evaluate each proposal, a financial model was developed that calculated the cost of operation for each location UNICEF presently occupied for the period 1991-2010, or within another time period if the proposal would offer to assume the obligation on behalf of UNICEF. The costs associated with the proposal were detailed to include operating expenses such as real estate taxes, if any, electricity, common area charges and landlord services, as well as one-time costs such as moving expenses and build-out costs. Credits were included against moving expenses and build-out costs, if so offered. These costs, including rent or annual occupancy charges, were consolidated under the heading "New office space" or "New warehouse space", as appropriate, since the analysis includes, but made a distinction between, the costs of warehouse space and the costs of office space. The annual costs were then extended to the year 2010 using an appropriate escalation factor.

Base case scenario

59. The base case scenario entails the following situation with regards to premises:

(a) Remain at UNICEF House, as is; do not expand. The current rent structure is maintained and the lease extension is exercised beyond the present lease expiration in the year 2002. Remain at 333 East 38th Street, 1 Dag Hammarskjöld Plaza, Secaucus and Long Island City locations in the present space, extending the leases beyond their present expiration dates;

(b) New space would be acquired, as needed, at rental rates that are comparable to those being offered at 333 East 38th Street for office space and comparable to those being offered at the Secaucus location for warehouse space;

(c) There are certain maintenance and configuration costs each year for UNICEF House that are not included in the operating costs, as operating costs shown only reflect those costs incurred to occupy the premises regardless of its configuration;

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(d) Expenses other than the base rent already noted for UNICEF House for the base year 1991 are: \$4.25 per square foot per year in operating expenses; and \$1.90 per square foot per year for electricity;

(e) No real estate taxes would have to be paid;

(f) Assume a workletter allowance in cash or value of work equivalent to \$35.00 per square foot offered by the landlord for new office space and none for warehouse space. No moving allowance would be offered by the landlord.

Revised base case scenario

60. The revised base case scenario is the same as the base case scenario indicated above with the exception that the base rent for the existing 180,491 gross square feet of space at UNICEF House is fixed at \$35.50 per square foot in accordance with the latest UNDC offer (see para. 31 above). Because of the reasons given in paragraph 34 above, the two apartment floors are not included in this scenario, nor in the base case scenario indicated above.

Alternate base case scenario

61. An alternative to the base case, or "alternate base case" as called in the balance of this report, considered the offer that has been made by UNDC to allow UNICEF to convert the top two floors for office use and fix the base rental beyond its expiration in 2002 (see paras. 31, 32 and 34):

(a) Remain at UNICEF House, expanding into the top two floors which would add 23,500 rentable square feet of new office space. The rent is fixed at \$28.00 per square foot during the present lease term, and if the extension is exercised beyond the present lease expiration in the year 2002. The remainder of the lease for UNICEF would remain as is. Remain at 333 East 38th Street, 1 Dag Hammarskjold Plaza, Secaucus and Long Island City locations in the present space, extending the leases beyond their present expiration dates;

(b) New space would be acquired as needed, at rental rates that are comparable to those at 333 East 38th Street for office space and comparable to that being offered at the Secaucus location for warehouse space;

(c) There are certain maintenance and configuration costs each year for UNICEF House that are not included in the operating costs, as operating costs shown only reflect those costs incurred to occupy the premises regardless of its configuration;

(d) Expenses other than the base rent already noted for UNICEF House for the base year 1991 are: \$4.25 per square foot per year in operating expenses; and \$1.90 per square foot per year for electricity;

(e) There are no real estate taxes paid;

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(f) Assume a workletter allowance, at the time, in cash or value of work equivalent to \$35.00 per square foot offered by any landlord for new office space and none for warehouse space. No moving allowance would be offered. It should be noted that the UNDC estimates build-out costs for the top two floors at \$63.82 per square foot. The consultant firm's analysis used a \$70.00 per square foot rate to be consistent with other Manhattan locations;

(g) For ease of analysis, the figures for new office space at UNICEF House and at another location, to make up the amount needed, are totalled in the same column labelled "New office space", with the rent of the top two floors of UNICEF House blended in, by its proportionate share with the rents outside UNICEF House.

62. The financial calculations included annual costs for each location and in total, the costs over each five year period beginning 1991, and finally the present value of these calculations using a 10 per cent discount rate, again for each individual property and in total. Lastly, a summary page was developed that included a comparison of the alternate base case values against the base case scenario described herein between 1991-2010. The summary of the calculations for the base case and the revised base case is shown in table 4 below. The "alternate base case" compared with the "revised base case" are shown in table 5 below. The relatively large increases in the estimated annual rent costs for the years 1995, 2000, 2005 and 2010 shown in tables 4 and 5 are attributable to the fact that in these years additional space would be acquired to meet anticipated growth needs, and the rental figures for these years include estimated fitting-out costs for the additional space.

Notes and definitions for financial summary tables

63. The following notes and definitions are applicable to all the financial summary tables used in the present report:

(a) Total premises - the total rentable square feet for all the premises in any one year;

(b) Annual - the total cost for premises in any one year expressed in United States dollars;

(c) Cost/SF - the total unit cost of premises for any one year expressed in United States dollars per square foot per year;

(d) Savings or (costs) - the difference in cost between the proposal and the base case expressed in United States dollars. Savings indicates that the proposal is better than the base case. Costs indicates that the proposal is more expensive than the base case and is highlighted by being included in parenthesis;

(e) Total aggregate - the sum of the annual costs in United States dollars for the period in question. For example, the total aggregate for years 11-15 is the sum of the annual costs for the period 2001 to 2005;

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Table 4

**FINANCIAL SUMMARY OF
BASE CASE SCENARIO AND COMPARISON TO REVISED BASE CASE**

Year No.	Year	Total Premises (sq.ft.)	BASE CASE		REVISED BASE CASE		Savings Over Base Case (US\$)
			Annual Cost (US\$)	Cost/SF (US\$/SF)	Annual Cost (US\$)	Cost/SF (US\$/SF)	
1	1991	314,419	9,805,641	31.19	9,805,641	31.19	0
2	1992	314,419	10,048,630	31.96	9,898,221	31.48	150,409
3	1993	314,419	10,336,150	32.87	9,975,168	31.73	360,982
4	1994	314,419	10,613,841	33.76	10,252,859	32.61	360,982
5	1995	368,000	14,274,068 <u>a/</u>	38.79	13,913,086 <u>a/</u>	37.81	360,982
6	1996	368,000	12,452,510	33.84	11,790,108	32.04	662,402
7	1997	368,000	12,981,487	35.28	11,898,541	32.33	1,082,946
8	1998	368,000	13,095,295	35.59	12,012,349	32.64	1,082,946
9	1999	368,000	13,594,778	36.94	12,511,832	34.00	1,082,946
10	2000	427,000	18,918,218 <u>a/</u>	44.30	17,835,272 <u>a/</u>	41.77	1,082,946
11	2001	427,000	15,814,897	37.04	14,731,951	34.50	1,082,946
12	2002	427,000	16,201,459	37.94	14,892,899	34.88	1,308,560
13	2003	427,000	16,686,242	39.08	15,061,823	35.27	1,624,419
14	2004	427,000	17,397,600	40.74	15,773,181	36.94	1,624,419
15	2005	501,000	25,569,013 <u>a/</u>	51.04	23,944,594 <u>a/</u>	47.79	1,624,419
16	2006	501,000	20,528,803	40.98	18,904,384	37.73	1,624,419
17	2007	501,000	20,957,998	41.83	19,145,869	38.22	1,812,129
18	2008	501,000	21,474,968	42.86	19,399,321	38.72	2,075,647
19	2009	501,000	22,505,963	44.92	20,430,316	40.78	2,075,647
20	2010	575,000	32,644,507 <u>a/</u>	56.77	30,568,860 <u>a/</u>	53.16	2,075,647
YEARS 1 - 5							
TOTAL AGGREGATE			55,078,330		53,844,975		1,233,355
AVERAGE ANNUAL			11,015,666		10,768,995		246,671
YEARS 6 - 10							
TOTAL AGGREGATE			71,042,288		66,048,102		4,994,186
AVERAGE ANNUAL			14,208,458		13,209,620		998,837
YEARS 11 - 15							
TOTAL AGGREGATE			91,669,212		84,404,448		7,264,764
AVERAGE ANNUAL			18,333,842		16,880,890		1,452,953
YEARS 16 - 20							
TOTAL AGGREGATE			118,112,239		108,448,750		9,663,489
AVERAGE ANNUAL			23,622,448		21,689,750		1,938,698
YEARS 1 - 20							
TOTAL AGGREGATE			335,902,070		312,746,275		23,155,795
AVERAGE ANNUAL			16,795,103		15,637,314		1,157,790
PRESENT VALUE			121,206,002		114,211,193		6,994,809

a/ See para. 62.

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Table 5

**FINANCIAL SUMMARY OF ALTERNATE
BASE CASE SCENARIO AND COMPARISON TO REVISED BASE CASE**

Year No.	Year	Total Premises (sq.ft.)	ALTERNATE BASE CASE		REVISED BASE CASE		
			Annual Cost (US\$)	Cost/SF (US\$/SF)	Annual Cost (US\$)	Cost/SF (US\$/SF)	Savings Over Base Case (US\$)
1	1991	314,419	9,805,641	31.19	9,805,641	31.19	0
2	1992	314,419	10,048,630	31.96	9,898,221	31.48	150,409
3	1993	314,419	10,336,150	32.87	9,975,168	31.73	360,982
4	1994	314,419	10,613,841	33.76	10,252,859	32.61	360,982
5	1995	368,000	14,349,011	38.99	13,913,086	37.81	435,925
6	1996	368,000	12,527,904	34.04	11,790,108	32.04	737,796
7	1997	368,000	13,057,354	35.48	11,898,541	32.33	1,158,813
8	1998	368,000	13,171,658	35.79	12,012,349	32.64	1,159,309
9	1999	368,000	13,568,734	36.87	12,511,832	34.00	1,056,902
10	2000	427,000	18,906,116	44.28	17,835,272	41.77	1,070,844
11	2001	427,000	15,804,032	37.01	14,731,951	34.50	1,072,081
12	2002	427,000	16,191,892	37.92	14,892,899	34.88	1,298,993
13	2003	427,000	16,678,038	39.06	15,061,823	35.27	1,616,215
14	2004	427,000	17,295,397	40.50	15,773,181	36.94	1,522,216
15	2005	501,000	25,488,740	50.88	23,944,594	47.79	1,544,146
16	2006	501,000	20,451,164	40.82	18,904,384	37.73	1,546,780
17	2007	501,000	20,883,122	41.68	19,145,869	38.22	1,737,253
18	2008	501,000	21,402,991	42.72	19,399,321	38.72	2,003,670
19	2009	501,000	22,340,508	44.59	20,430,316	40.78	1,910,192
20	2010	575,000	32,510,588	56.54	30,568,860	53.16	1,941,726
YEARS 1 - 5							
TOTAL AGGREGATE			55,153,273		53,844,975		1,308,298
AVERAGE ANNUAL			11,030,655		10,768,995		261,660
YEARS 6 - 10							
TOTAL AGGREGATE			71,231,766		66,048,102		5,183,664
AVERAGE ANNUAL			14,246,353		13,209,620		1,036,733
YEARS 11 - 15							
TOTAL AGGREGATE			91,458,099		84,404,448		7,053,651
AVERAGE ANNUAL			18,291,620		16,880,890		1,410,730
YEARS 16 - 20							
TOTAL AGGREGATE			117,588,373		108,448,750		9,139,623
AVERAGE ANNUAL			23,517,675		21,689,750		1,827,925
YEARS 1 - 20							
TOTAL AGGREGATE			335,431,511		312,746,275		22,685,236
AVERAGE ANNUAL			16,771,576		15,637,314		1,134,262
PRESENT VALUE			121,206,959		114,211,193		6,995,766

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(f) Average annual - the total aggregate costs divided by the number of years. This is expressed in United States dollars per year;

(g) Present value - the costs expressed in 1991 United States dollars of the total annual costs for the 1991-2010 period discounted at the rate of 10 per cent.

Review of base case and alternate base case scenarios

64. In reviewing the base case and alternate base case scenarios, it is apparent that there is only an insignificant (only about \$470,000 in aggregate rental costs over the term 1991-2010) change in favour of the alternate base case over the base case. This highlights the fact that even under the existing lease structure and a fixed rate of base rent for the top two floors, UNICEF House is not the least costly space alternative. However, this does not account for the fact that most likely the less expensive premises outside UNICEF House are in an older building and are provided with a lower level of services than can be provided at UNICEF House. Nevertheless, as the top two floors provide only an additional office accommodation of 23,500 square feet, additional space would have to be taken elsewhere to support the projected space requirements in 1995 and beyond to 2010. As the two base cases are fairly similar, the base case was the one chosen for comparison with the proposals reviewed.

Review of revised base case scenario

65. The UNDC offer to cap the base rental rate at \$35.50 per square foot was received by UNICEF after the consultants had completed the first phase of the study, and, therefore, is not included in the report. However, supplementary tables are included in the present document to compare the costs of other alternative options with the revised base case scenario. It should be noted, however, that the revised base case scenario rental costs are not based on a legally executed lease as is the case with the base case scenario costs, but rather only on an offer from UNDC.

Leasing scenarios

66. All of the proposals submitted offered a long-term lease structure of typically 20 years. Where necessary, some assumptions had to be made with regard to the fair market value in the fifteenth year of the 20-year lease proposed, but in most cases rental rates and reasonably estimated operating costs were provided. One item that could not be properly evaluated was the offer of equity participation. As this aspect of the offer is very hypothetical, it was noted only in the subjective review of the evaluation, but not in the financials. The consultant firm believes that this is the prudent approach to take at this stage of the study. Obviously, where equity is offered, its structure has to be understood, i.e., cash flow only, or gain only, or both, to appreciate fully the impact of the proposal. Therefore, in some respects, the costs for those proposals that offered equity participation may be conservative or overstated to some extent. However, as discussed later

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in the present report, the firm does not believe that, because of the type of financial structure of acquisition that they proposed, this equity participation will be of a material nature nor will it be sufficient to move a proposal from an unfavourable cost structure when compared to the base case, or revised base case, to a relatively favourable cost structure.

67. According to the consultants, the present value of the premises costs under any proposed leasing scenario is the only true measure of evaluation and comparison between proposals as well as against the base case and revised base case scenarios. Table 6 below was developed to summarize the financial Table 6 results of the review of the proposals submitted in terms of the total costs over the 1991-2010 period, the average annual costs and the present value costs over the above noted period for each proposal reviewed, as well as for the base case and the revised base case. This summary was then sorted to list the proposals in ascending order of present value costs, i.e., from the lowest present value to the highest present value. The table was broken up at the point where the base case value was located relative to the proposal. The last three columns show the differences in the total, the average annual and the present value costs between the proposal and the base case scenario and the revised base case scenario.

68. Comments relating to table 6 are as follows:

(a) Except for proposal No. 2, all of the proposals more favourable than the base case are located outside Manhattan. This is owing to a combination of lower base rental levels and lower operating costs. In some instances, lower tax rates or abated taxes were significant contributions. This last note is especially true for proposal No. 2, which is fully exempt from real estate taxes;

(b) In some instances where a proposal may be more favourable from a present value standpoint, it may not appear to be more favourable than other proposals in terms of total costs. This is a result of the time value of money and the fact that different proposals have different cash flow situations. As an example, proposals 10 and 20 bear this out as their results reflect the low front end costs proposed by one (proposal No. 10), whereas the other (proposal No. 20) offered an even level cost structure over the analysis period;

(c) The majority of unfavourable proposals relative to the two base cases were located in midtown Manhattan and, in some cases, in the United Nations Development District or vicinity. As stated above, this is indicative of the relatively high rental levels, even in today's depressed market, and the high cost of operations, especially the real estate tax component.

Additionally, the Manhattan locations are considered more costly to build out, and with the majority of the build-out preformed in the early years of the proposal, this has a big impact on the present value figures as these are "expensive" dollars.

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Table 6

FINANCIAL COMPARISON OF PROPOSALS AGAINST THE BASE CASE AND
REVISED BASE CASE SORTED BY ASCENDING PRESENT VALUE

(In thousands of United States dollars)

Proposal No.	Location	Total 1991-2010	Average Annual	Present Value	Better/(Worse) Than Base Case		
					Total 1991-2010	Average Annual	Present Value
10	Queens	242.1	12.1	94.3	93.9	4.7	26.9
20	Westchester	235.5	11.8	96.9	100.5	5.0	24.3
31	New Jersey	234.3	11.7	98.3	101.7	5.1	22.9
30	New Jersey	241.4	12.1	100.0	94.6	4.7	21.2
12	New Jersey	251.7	12.6	100.1	84.3	4.2	21.1
16	Brooklyn	271.2	13.6	104.3	64.8	3.2	16.9
3	Westchester	280.5	14.0	106.0	55.5	2.8	15.2
2	Manhattan	283.3	14.2	107.6	52.7	2.6	13.6
4	Long Island	285.4	14.3	111.1	50.6	2.5	10.1
21	Queens *	288.8	14.4	111.5	47.2	2.4	9.7
27	New Jersey	281.1	14.1	113.4	54.9	2.7	7.8
13	Westchester	305.7	15.3	113.7	30.3	1.5	7.5
REVISED BASE CASE		312.7	15.6	114.2	23.3	1.2	7.0
15	Westchester	299.5	15.0	115.8	36.5	1.8	5.4
8	Westchester	315.7	15.8	116.2	20.3	1.0	5.0
9	Westchester	330.6	16.5	118.7	5.4	0.3	2.5
*BASE CASE		336.0	16.8	121.2	0.0	0.0	0.0
24	Manhattan	328.5	16.4	121.2	7.5	0.4	0.0
7	Manhattan	333.5	16.7	122.8	2.5	0.1	(1.6)
14	Connecticut	336.7	16.8	122.9	(0.7)	(0.0)	(1.7)
1	New Jersey	323.8	16.2	122.9	12.2	0.6	(1.7)
26	New Jersey	341.9	17.1	123.8	(5.9)	(0.3)	(2.6)
34	Manhattan	353.9	17.7	125.2	(17.9)	(0.9)	(4.0)
23	Manhattan	337.8	16.9	126.2	(1.8)	(0.1)	(5.0)
6	Manhattan	339.1	17.0	127.7	(3.1)	(0.2)	(6.5)
18	New Jersey	327.7	16.4	127.7	8.3	0.4	(6.5)
29	Queens	345.9	17.3	133.5	(9.9)	(0.5)	(12.3)
32	Brooklyn	353.8	17.7	136.1	(17.8)	(0.9)	(14.9)
17	Manhattan	379.2	19.0	136.4	(43.2)	(2.2)	(15.2)
25	Westchester	375.5	18.8	138.3	(39.5)	(2.0)	(17.1)
5	Manhattan	402.6	20.1	138.7	(66.6)	(3.3)	(17.5)
19	Manhattan	409.1	20.5	144.7	(73.1)	(3.7)	(23.5)
11	Manhattan	408.2	20.4	146.2	(72.2)	(3.6)	(25.0)
33	Manhattan	377.3	18.9	148.6	(41.3)	(2.1)	(27.4)
22	Manhattan	403.6	20.2	154.5	(67.6)	(3.4)	(33.3)
28	Manhattan	492.1	24.6	175.5	(156.1)	(7.8)	(54.3)

* Information has recently been received indicating that this proposal will be financially more favorable than the figures shown. Data will be revised when new figures are received.

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69. As a further means of comparison, a present value of each proposal was developed which took into account the space efficiency of the building or development. Building space efficiency is a factor to consider as it will impact on the amount of space, and, therefore, on the costs required to accommodate the staff, i.e., more efficient or usable space will be able to accommodate UNICEF staff at a lesser cost. Therefore, the "efficient present value" of each proposal was calculated by multiplying the present value of the proposal previously calculated by a factor that took into account the difference in building efficiency between the proposal and the base case. Recognizing that the two base cases, at 0.83, are relatively efficient by New York standards, several of the previously calculated present value costs increased by several million dollars. On the other hand, the previously favourable proposals became even more favourable as they were located outside of Manhattan where building efficiency levels are generally higher than in New York.

70. Table 7 below summarizes the same data as the previous table, but focuses only on present value and efficiency factors. Again, the same comments can be made as above, especially with regard to the position of the Manhattan and, in particular, the midtown Manhattan proposals relative to the base case. What is even more interesting to note is the change in positioning between the proposals that are comparably favourable against the base case. For example, whereas proposal No. 10 appeared to be the lowest in present value, proposal No. 31 appeared to be the lowest in efficient present value. The difference in efficiency and, therefore, costs is reflective of the fact that proposal 10 is an older existing building and proposal No. 31 is a new, modern-designed building with efficient floor plates.

71. In summary, as indicated in table 7, the five most cost-effective proposals in terms of present value, taking into account the efficiency of the space offered as well, are proposals Nos. 31 (New Jersey), 20 (Westchester County), 16 (Brooklyn), 10 (Queens) and 12 (New Jersey).

Table 7

**FINANCIAL COMPARISON OF PROPOSALS AGAINST THE BASE CASE AND
REVISED BASE CASE SORTED BY ASCENDING EFFICIENT PRESENT VALUE**

Proposal No.	Location	Present Value (US\$000,000)	Space Efficiency	Efficient Present Value (US\$000,000)	Better/(Worse) Than Base (US\$000,000)
31	New Jersey	98.3	0.89	91.7	29.5
20	Westchester	96.9	0.85	94.6	26.6
16	Brooklyn	104.3	0.91	95.1	26.1
10	Long Island	94.3	0.82	95.5	25.7
12	New Jersey	100.1	0.87	95.5	25.7
30	New Jersey	100.0	0.85	97.6	23.6
3	Westchester	106.0	0.90	97.8	23.4
4	Long Island	111.1	0.90	102.5	18.7
13	Westchester	113.7	0.92	102.6	18.6
21	Queens *	111.5	0.90	102.8	18.4
27	New Jersey	113.4	0.89	105.8	15.4
14	Connecticut	122.9	0.92	110.9	10.3
2	Manhattan	107.6	0.80	111.6	9.6
15	Westchester	115.8	0.86	111.8	9.4
9	Westchester	118.7	0.88	112.0	9.2
REVISED BASE CASE		114.2	0.83	114.2	7.0
26	New Jersey	123.8	0.89	115.5	5.7
8	Westchester	116.2	0.82	117.6	3.6
18	New Jersey	127.7	0.90	117.8	3.4
29	Queens	133.5	0.94	117.9	3.3
1	New Jersey	122.9	0.85	120.0	1.2
25	Westchester	138.3	0.95	120.8	0.4
*	Base Case	121.2	0.83	121.2	0.0
34	Manhattan	125.2	0.80	129.9	(8.7)
6	Manhattan	127.7	0.80	132.5	(11.3)
24	Manhattan	121.2	0.75	134.1	(12.9)
23	Manhattan	126.2	0.78	134.3	(13.1)
7	Manhattan	122.8	0.75	135.9	(14.7)
32	Brooklyn	136.1	0.80	141.2	(20.0)
17	Manhattan	136.4	0.79	143.3	(22.1)
19	Manhattan	144.7	0.81	148.3	(27.1)
11	Manhattan	146.2	0.81	149.8	(28.6)
5	Manhattan	138.7	0.76	151.5	(30.3)
33	Manhattan	148.6	0.80	154.2	(33.0)
22	Manhattan	154.5	0.80	160.3	(39.1)
28	Manhattan	175.5	0.78	186.8	(65.6)

* Information has recently been received indicating that this proposal will be financially more favorable than the figures shown. Data will be revised when new figures are received.

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Purchase scenarios

72. Several proposals were submitted that offered the option to purchase the building or development upon its completion. Using the same analysis format, the offered selling price of the property was compared with the cost of the two base cases. This was accomplished by converting the selling price into a square foot figure and applying it to the total square footage of the building or development in the first year of the proposal, i.e., 1995. For the remainder of the analysis period, i.e., to the year 2010, there is "no rent" in essence except for the operating costs, which were reduced by the amount attributed to real estate taxes as this cost would not be applicable under a purchase scenario for UNICEF. The same growth figures were used for operating expenses as under the lease scenario. Also used was the amount of the build-out costs and moving costs in excess of the amount of each offered in the leasing scenario. This is a reasonable assumption and would represent a minor concession on the part of the seller as the offered selling price is subject to negotiation. At the end of the analysis period, or the year 2010, an assumption was made as to the salvage value of the property. This was calculated by using a 4 per cent growth rate representing the appreciation in value of the property. The property value in 2010 is then discounted at the same 10 per cent rate used in the original analysis and credited against the total present value costs of occupancy. As with the calculations for the leasing scenarios, a year-to-year cost, total costs and present value costs for each location were calculated.

73. The locations that provided a selling price were proposals Nos. 4, 12, 18, 25, 26 and 32 (see table 8 below).

74. Table 8 shows the present value calculated for each of the above and compares them to the two base case scenarios. In all these calculations, UNICEF was assumed to be obliged to pay for all the space, even if unoccupied, and all in the first year, or 1995. No assumption or credit was given for leasing any of the space to others, although this may be possible. The data contained in this table indicates the following:

(a) Proposals that were previously unfavourable under the lease scenario when compared with the base case, are now favourable owing to the fact that a salvage value was applied to the end of the term. Also favouring this type of scenario is the fact that real estate taxes are not paid, and in some lease scenarios this is a significant portion of the total operating expense;

(b) Except for proposals Nos. 25 and 32, all were highly favourable when compared with the base case. Proposal No. 32 was only marginally favourable because, owing to its size (255,042 rentable square feet), it required that all of UNICEF House be retained in order to accommodate the projected space required. The 1 Dag Hammarskjöld Plaza and 333 East 38th Street premises would not be retained;

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Table 8

FINANCIAL COMPARISON OF PURCHASE PROPOSALS

(In millions of United States dollars)

<u>Proposal No. a/</u>	<u>Location</u>	<u>Present value</u>
12	New Jersey	92.3
18	New Jersey	93.8
4	Long Island	94.3
26	New Jersey	105.1
32	Brooklyn	118.9
25	Westchester County	126.0
Base case - (Existing)		121.2
Revised base case - (Existing)		114.2

a/ See table 6.

(c) Even without the benefit of any income derived from the leasing of excess space, the purchase proposals are favourable when compared with the base case.

75. The above, and table 8, highlight the financial benefits of ownership for an organization the size of UNICEF. Essentially, where in the past the organization derived a certain flexibility from leasing its required space, it is clear at this time that the financial savings brought about by some amount of equity or ownership interest is much more advantageous than leasing. Generally, leased premises, especially of this size, are an asset that gradually diminishes in value. This is true more so at the end of the term when little can be offered to others because of the balance of the terms remaining. Moreover, any options available to the organization are extremely sensitive to the market conditions existing at expiration. To some extent, the same can be said for ownership, although, again generally, and especially if the premises are in a good location, the basic value should always be maintained and any subsequent appreciation would accrue to the benefit of the organization. The major drawback with the purchase scenarios is the relatively large amount of capital required in the first year (in some cases in excess of \$100 million). This is especially not desirable as UNICEF would

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apparently not be allowed to carry a mortgage on the property as noted in paragraphs 18 and 19 above.

Lease purchase scenarios

76. The consultants believe, however, that any of the favourable leasing scenarios proposed can be structured into what can be described as a finance lease or lease purchase wherein the lease payments act as a mortgage payment, and at the end of the term, for a nominal sum, title to the property can be purchased. This was offered in several of the proposals, but can be offered by most, if not all. The mechanism would be to establish a source that would have low cost funds (tax exempt bonds, for example) to purchase the property, placing the title in escrow or with a trustee. The lease payments would remain as originally negotiated and, because of the low cost of funds (currently between 5 and 7 per cent depending on the credit rating of the applicant), should be sufficient to cover the obligation while yielding a reasonable return for the source. Several non-profit organizations have structured such a transaction very recently, which involved long-term, 25-year leases, whereupon at the end of the lease term, title to the property is conveyed for a nominal payment of \$1.00.

77. The benefits of this type of transaction are obvious in that at the end of the term, for essentially the same payment as under a simple lease structure, ownership of the property can be secured, and the options to the organization at that time are very advantageous. The organization may choose to continue to occupy, but would only be paying operating costs; or it may choose to sell the asset and use the proceeds elsewhere, or perhaps enter into a sale lease-back transaction. These possibilities all have positive implications and, therefore, this type of transaction would be recommended over the straightforward purchase scenario being offered in the above proposals.

Analysis of United Nations Development Corporation/New York City Economic Development Corporation "ownership" proposal

78. This proposal was discussed in paragraphs 39 and 40 above. Since it covers a time-span of approximately 34 years, it was not feasible to include it in the various other financial comparison tables in this report as all of these comparisons were made on the basis of a 20-year occupancy (1991-2010) of the various premises, e.g., table 6. Additionally, not all of the proposals in table 6 offered the possibility of eventual ownership. UNICEF real estate consultants have reviewed the memorandum received from UNDC/NYCEDC covering the "ownership" proposal and have made, inter alia, the comments listed below.

79. The maturity date of the UNDC bonds is anticipated to be 1 July 2026, assuming that the current financing is maintained. There is no guarantee on this date and, in fact, it could change if the financing arrangements change. Assuming that a change in financing will not change the offered lease rate of \$35.50 per square foot, a maturity date prior to July 2026 would obviously be in UNICEF's favour. The corollary to this is if the maturity date extends

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beyond July 2026, it will mean an added expense to UNICEF. The consultants have recommended that UNDC should explain the circumstances under which the financing can change and provide an explanation of how the rental payment is affected, if at all.

80. Another aspect to consider is that ownership of this property is conditional on its continued use and occupancy by UNICEF, otherwise the property ownership would revert to the City. In essence, UNICEF could not benefit from an appreciation of the value of the property as it could never sell it (see para. 82 (b) below). Also, as the process for approval proceeds (estimated to be about one year), UNICEF will have to decide what steps it needs to take in order to accommodate its interim space needs. Another obvious issue is that if the process fails and approval is not obtained, the ramifications must be considered and a contingency plan developed.

81. Table 8a below gives a financial comparison of proposals Nos. 20 (Westchester County), 10 (Queens) and 21 (Queens), with the UNDC/NYCEDC ownership offer of 3 United Nations Plaza. As indicated in this table, all three of the alternative proposals are more cost-effective than the 3 United Nations Plaza (UNICEF House) offer. The following paragraphs describe the assumptions used to calculate the figures in table 8a.

82. In order to evaluate the UNDC/NYCEDC proposal and compare it with the alternatives available to UNICEF, several assumptions had to be made. Assumptions were developed that were applicable throughout all the scenarios, and others were developed for specific locations such as the warehouses. The general assumptions were as follows:

(a) The analysis period would be sufficient to account for some benefit of ownership beyond the year 2026. Therefore, the maximum period of the analysis covered 45 years beginning in 1991 and ending at the end of 2035. Figures were also developed for the 36-year period 1991-2026, as the year 2026 is the year that, under current financing arrangements, all of the UNDC bonds would be paid. There is a possibility, however, that the bonds may be paid by the year 2024 (see para. 39 (a), above);

(b) A salvage value was not developed for any of the proposals or the UNDC/NYCEDC offer. There are several reasons for this: (i) the present value of a year 2035 figure discounted at 10 per cent is relatively insignificant; (ii) it is difficult to assess the functionality of the building or property in 45 years; and (iii) if this assumption is made across the board for all circumstances then, comparatively speaking, they are all treated equally. It is assumed, and correctly so, that in any of the other proposals UNICEF would own the asset after 45 years, or sooner, by simply paying the rental rate offered. The significant difference is that with the other proposals the asset could be sold, while in the UNDC/NYCEDC offer ownership of the asset would revert to the City if UNICEF does not continue to use it as its worldwide headquarters;

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Table 8a

FINANCIAL COMPARISON OF SELECTED PROPOSALS AND
THE UNDC/NYCEDC OWNERSHIP OFFER

(In millions of United States dollars)

Proposal	Aggregate <u>a/</u> (36 years)	Average annual <u>a/</u> (36 years)	Present value <u>a/</u> 1991-2026 (36 years)	Proposal 1991-2035 (45 years)
1. UNDC/NYCEDC (3 United Nations Plaza)	783.9	21.7	147.9	160.7
2. Proposal No. 20 (Westchester County)	516.0	14.3	116.2	120.4
3. Proposal No. 10 (Queens)	607.3	16.9	119.4	125.1
4. Proposal No. 21 <u>b/</u> (Queens)	702.2	19.5	139.3	146.6

a/ The estimated costs for proposals 10, 20 and 21 include moving and installation costs.

b/ Information has been received indicating that this proposal will be financially more favourable than the figures shown. The data will be revised when the new figures are received (see para. 103 below).

(c) There would be no growth beyond 2010 for any of the scenarios evaluated. In other words, in the year 2010, the UNICEF space requirement would be fixed at 440,000 square feet of office space and 135,000 square feet of warehouse/storage space. Realistically this may not be accurate, but for comparison purposes since all the scenarios would have the same growth rate, the relative differences would be the same.

83. Specific assumptions for each property currently occupied if the UNDC/NYC offer were accepted are as follows:

(a) For purposes of analysis it was assumed that UNICEF House would begin its new rate of \$35.50 on 1 July 1991 and end on 1 July 2026. The same operating expense structure would be maintained as currently exists, however,

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this would continue to the end of 2035. UNICEF would not exercise its option to take the top two floors as the rate of \$28.00 is still more costly than securing the same amount of space at a new location, which would be required at any rate, to accommodate UNICEF needs beyond 1995;

(b) 333 East 38th Street would be retained by UNICEF and occupied under its present lease terms until its expiration on 31 December 2003. GCO would then be relocated to the new space, yet to be determined, where the growth requirements are being met. This assumption was made as it would be unrealistic to believe that this obligation would be assumed by others or that UNICEF would be successful in subleasing to others if the space was vacated in 1995 or whenever the new location is secured;

(c) The lease at 1 Dag Hammarskjold Plaza would be extended until the new location is ready. This was assumed to be 1 January 1995;

(d) Both the Secaucus and Long Island City locations would continue to be retained, with the leases renewed to cover the period of the analysis, i.e., to the year 2035. New space would be accommodated in Secaucus as was assumed in the original report and, as with the office space requirement, this space would have no growth beyond 2010;

(e) New office space would be secured at a suitable location in the amounts to support the requirements in 1995, 2000 and 2010 over and above that accommodated by retaining UNICEF House. In other words, 61,509 square feet at a new location would be needed in 1995 as UNICEF House at 180,491 square feet and 333 East 38th Street at 40,000 square feet would be retained. The total space requirements would then match year for year against the projected space requirements which were developed.

84. The economics over the same time periods indicated in table 8a were developed for proposals Nos. 10, 20 and 21. The assumptions were the same as in the consultants' original report, i.e., all leases to expire or be assumed by year-end 1994. The rental rates were as originally proposed, although they may realistically be improved upon. The intent of the above assumptions was to develop a conservative set of economics by providing as much benefit as possible to the UNDC/NYCEDC offer. The only criticism to this may be the fact that under proposals Nos. 10, 20 and 21, it is assumed that the UNICEF House lease is removed after 1995.

Land purchase and construction scenario

85. No land purchase and construction proposals were offered and, therefore, no substantial comments can be made as to such a possibility. However, in the light of what was previously stated with regard to the purchase scenarios, it is the opinion of the consultants that a land purchase and construction scenario would not be any more favourable. In fact, the inherent risks involved with the complexity of such a transaction and the possible timing difficulties when embarking on such an undertaking should make for a costly alternative when compared with existing or already planned developments.

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Also, the number of possible locations would be limited as large enough sites in and around Manhattan may not be obtainable or cost-effective to secure. This would limit the choice most likely to Westchester County, as suitable sites in Brooklyn, Queens and New Jersey are already controlled by others who have an interest in developing and not simply selling land.

Split operations scenarios

86. Two proposals were submitted which suggested that UNICEF House be retained, since the property or development being offered was not adequate to meet all of UNICEF space requirements to the year 2010. These types of proposals were considered as split operations scenarios, i.e., with only UNICEF House and the proposed location as the only office accommodations. The warehouse functions were retained and extended, as well as expanded, all as required to satisfy the space projections. The proposals analysed were both offered by the same owner for properties located in the United Nations Development District, one of which was 333 East 38th Street - a location that UNICEF already occupies. In both instances space was offered that is currently unavailable, but which is considered to become available over time to satisfy the space requirements of the organization between 1991-2010. Therefore, these proposals already have the risk of uncertainty which can adversely affect long-term planning. Nevertheless, for the purpose of financial analysis, it was assumed that the space would be made available at the time needed.

87. Another location proposed that may be included in this category is proposal No. 32 in Brooklyn. This can be acquired by lease or purchase, and the present value costs were, therefore, calculated under both possibilities.

88. Finally, 1 Dag Hammarskjold Plaza, a location where UNICEF presently occupies 23,528 square feet of office space, was evaluated as a possible candidate for the split operation scenario. The calculations were based on rental figures provided, but these, however, were incomplete, and extensive assumptions had to be made in order to perform the calculation. Given this, optimistic assumptions were made to test this scenario as a possibility, but it was found that even under very favourable conditions, it did not offer any financial benefit over the two base case scenarios. If such additional costs as the assumption of the 333 East 38th Street lease were included, this scenario would become even more costly, and a strategy to consolidate operations into this building would be questionable.

89. Table 9 below is a summary of the financials for the above-mentioned split operation scenarios which shows that on a present value basis only a purchase of proposal No. 32 appeared favourable, compared to the base case, although only marginally. Compared to the revised base case, proposal No. 32 was not favourable. Additionally, although difficult to calculate at this time, it is believed that the present value figure for the Dag Hammarskjöld scenario is understated by approximately \$3 million to \$5 million. The consultants are also concerned, without specific assurances from the landlords at 1 Dag Hammarskjöld, 333 East 38th Street and proposal No. 23, that space would indeed become available as needed. This would require UNICEF again to secure space in yet another location and, in essence, revert to its original undesirable position of decentralized operations.

90. Therefore, none of these were significantly better than the two base case scenarios, although from an operations standpoint they may provide for a more consolidated organization, i.e., two buildings as opposed to three or more as staff growth requires.

Table 9

FINANCIAL SUMMARIES OF SPLIT OPERATION SCENARIOS

(In millions of United States dollars)

<u>Proposal/numbers</u>	<u>Total costs 1991-2010</u>	<u>Average annual</u>	<u>Present value</u>
Base case	336.0	16.8	121.2
Revised base case	312.7	15.6	114.2
23 (United Nations District)	337.8	16.9	126.2
333 East 38th Street	328.5	16.4	121.2
32 (Brooklyn)			
Lease	353.8	17.7	136.1
Buy	242.0	12.1	118.9
1 Dag Hammarskjöld Plaza	335.9	16.8	122.8

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Comparison of proposals by type

91. Table 10 below presents a listing of each of the different types of proposals that were analysed and compares them with the two base case scenarios. All figures are expressed in millions of United States dollars. The most favourable proposal, in terms of present value costs, from each category was used for comparison purposes.

Table 10

COMPARISON OF PROPOSALS BY TYPE AGAINST THE TWO BASE CASE SCENARIOS

(In millions of United States dollars)

Proposal type a/ (Name)	Total 1991- 2010	Average annual	Present value b/	Better/(worse) than base case		
				Total 91-10	Average annual	Present value
Base case	336.0	16.8	121.2	0.0	0.0	0.0
Revised base case	312.7	15.6	114.2	23.3	1.2	7.0
Proposal No. 10 (Lease - Long Island City)	242.1	12.1	94.3	93.9	4.7	26.9
Proposal No. 12 (Purchase - Jersey City)	89.9	4.5	92.3	246.1	12.3	28.9
Split operations Proposal No. 32 (Purchase - Brooklyn)	242.0	12.1	118.9	94.0	4.7	2.3

a/ The most favourable, in terms of present value, for each proposal type was used and is noted in parenthesis under the proposal type.

b/ If the present value costs of the proposal was less favourable than the base case, the figure is shown in parenthesis.

92. A review of table 10 indicates the following:

(a) The most favourable proposal under all circumstances is the purchase scenario. Added to this is the flexibility that ownership provides, as well as long-term stable occupancy costs;

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(b) In all circumstances maintaining existing premises under the base case scenario is the least favourable. Again, this is indicative of the fact that there are several buildings and they are located mostly in Manhattan, which has a higher cost structure than at the locations offered in the proposals;

(c) A split operation scenario involving the purchase of the building offered in proposal No. 32 is more favourable than the base case scenario because of the salvage value which is added in the year 2010 upon sale of the building, but is not favourable when compared to the revised base case. Without the sale of the building, it would not appear favourable even when compared to the base case. Therefore, the consultants have concluded that if a split operations scenario is desirable, the organization should maintain its present locations rather than assume the risk associated with acquiring another building and relocating.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions of consultants

Rating of proposals reviewed and analysed

93. Table 11 below ranks each of the proposals reviewed and compares them with the two base cases according to a numerical rating system from zero (0) to four (4) (0 being the lowest rating and 4 being the highest rating). A value of from zero to four was assigned to each of the following categories for each proposal:

(a) Financials: The total costs and present value costs when compared with the base case scenario. This category has a weight of 50 per cent of the total rating for a maximum of 4;

(b) Location/area: Amenities available, neighbourhood services, transportation and communication infrastructure, access and proximity to the United Nations Headquarters site. If a location was more than 25 miles from United Nations Headquarters, it automatically received a value of 0. The highest rating was 4, based on providing all of the above, and was typically given to those proposals offering premises within the United Nations Development District or vicinity. This category had a weight of 30 per cent as it was considered significant, but not more than the financials;

(c) Building: Size, efficiency, flexibility, consolidation opportunity, parking and functionality. Generally, if the building had a high efficiency ratio relative to UNICEF House and provided for expansion capability of twice the amount required, it was given a rating of 4. A rating of 0 was given to any proposal that could not meet the space requirements projected even after accounting for efficiency. This category had a 10 per cent weight factor to the overall rating calculation;

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Table 11**RATING OF PROPOSALS REVIEWED AND ANALYZED**

Proposal No.	Location	Present Value (\$000,000 US)	Financial	Rating by Category			Image	Final Rating
				Location	Building	Timing		
10	Queens	94.9	4.0	3.5	4.0	4.0	3.5	3.83
16	Brooklyn	104.3	4.0	3.5	4.0	3.5	4.0	3.83
12	New Jersey	100.1	4.0	3.0	4.0	4.0	4.0	3.70
31	New Jersey	98.3	4.0	3.0	4.0	3.5	4.0	3.68
20	Westchester	96.9	4.0	3.0	3.0	3.0	3.5	3.53
3	Westchester	106.0	4.0	1.0	4.0	3.5	4.0	3.08
2	Manhattan	107.6	3.0	3.5	2.0	2.0	2.0	2.95
REVISED BASE CASE		114.2	2.0	4.0	3.0	4.0	2.0	2.80
21	Queens	111.5	2.0	3.5	3.5	3.0	4.0	2.75
27	New Jersey	113.4	2.0	3.0	4.0	4.0	4.0	2.70
15	Westchester	115.8	2.0	3.0	4.0	3.5	4.0	2.68
4	Long Island	111.1	3.0	2.0	1.0	3.0	3.0	2.50
30	New Jersey	100.0	4.0	0.0	2.0	2.0	1.0	2.35
8	Westchester	116.2	1.0	3.0	2.0	3.0	3.0	1.90
9	Westchester	118.7	1.0	3.0	2.0	2.0	3.0	1.85
BASE CASE		121.2	0.0	4.0	3.0	4.0	2.0	1.80
7	Manhattan	122.8	0.0	4.0	3.0	3.0	3.0	1.80
19	Manhattan	144.7	0.0	4.0	3.0	3.0	3.0	1.80
13	Westchester	113.7	2.0	1.0	1.0	3.0	4.0	1.75
5	Manhattan	138.7	0.0	4.0	2.0	3.0	3.0	1.70
11	Manhattan	146.2	0.0	4.0	3.0	2.0	2.0	1.70
22	Manhattan	154.5	0.0	4.0	3.0	2.0	2.0	1.70
1	New Jersey	122.9	0.0	3.0	4.0	3.0	4.0	1.65
28	Manhattan	175.5	0.0	4.0	2.0	3.0	2.0	1.65
6	Manhattan	127.7	0.0	4.0	2.0	2.0	2.0	1.60
17	Manhattan	136.4	0.0	4.0	2.0	2.0	2.0	1.60
34	Manhattan	148.6	0.0	4.0	1.0	3.0	1.0	1.50
18	New Jersey	127.7	0.0	3.0	2.0	3.0	4.0	1.45
24	Manhattan	121.2	0.0	4.0	0.0	2.0	2.0	1.40
23	Manhattan	126.2	0.0	4.0	0.0	2.0	2.0	1.40
29	Queens	133.5	0.0	2.0	3.0	3.0	3.0	1.20
14	Connecticut	122.9	0.0	2.0	2.0	3.0	3.0	1.10
32	Brooklyn	136.1	0.0	3.0	0.0	3.0	1.0	1.10
26	New Jersey	123.8	0.0	1.0	3.0	3.0	4.0	0.95
25	Westchester	138.3	0.0	0.0	3.0	3.0	4.0	0.65

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(d) Timing: Availability of occupancy as compared to the preferred or ideal schedule of January 1995. Generally, if a proposal accommodated the UNICEF schedule and in a flexible manner, it was given a rating of 4. If the proposal required occupancy or payments to begin prior to January 1995, with no flexibility, it was given a 0 rating value. This category was given a weighting of 5 per cent. It should be noted that to some extent this is also accounted for in the financials if a commitment prior to 1995 or after 1995 was required. This would create a negative financial impact on the proposal by having either two lease payments or retaining more expensive premises until the proposal is ready;

(e) Image: Both a location and appearance or design standard compared to present facilities, i.e., whether this represent a proper standard for UNICEF headquarters. Generally, a relatively new or to be built development was given a rating closer to 4. Existing buildings over 30 years old and containing items such as asbestos were given a rating of 0. This category had a weight of 5 per cent of the total rating value.

94. The results of the ratings for all of the proposals, including the base case, are shown in table 11. As the financials and location weighted heavily (80 per cent together), the top proposals generally mirror the results of the financials. However, some proposals for locations in midtown Manhattan did rate higher than the base case as some have the added advantage of being able to accommodate UNICEF in one location.

95. These ratings can serve as a simple guide and as an indication of some of the objective views taken within the organization of the proposals reviewed. They represent a small review sampling (two by the UNICEF project team and two by the consultant firm) and could be expanded, if need be, at a later date as criteria change, if so desired, when analysing final proposals.

Recommended long-term strategy

96. The consultant firm stated that if it cannot (at the time its report was completed) conclude on one specific location for UNICEF, the firm can state that any long-term effective premises strategy can only be achieved by consolidating into one location outside of Manhattan and under an arrangement whereby the organization can achieve ownership of the property after the initial term of the lease. They consider that the organization is too large to consider simply leasing and allowing the landlord or development owner only to realize the benefits of its occupancy. UNICEF leaves itself open to the market at the end of any lease term with little flexibility during the tenure of its obligation. Clearly for UNICEF a long-term lease is a diminishing asset and, as ownership can be achieved at little or no additional cost to the cost of leasing, the firm considers that it would be prudent to take advantage of the present market conditions to secure the lowest possible basis of acquisition today.

97. As indicated earlier in the present report, all leasing scenarios can be reconfigured into a lease/purchase transaction and at attractive rates using

tax-exempt bonds or other low-cost finance sources. The consulting firm has recommended that this should be pursued vigorously, while simultaneously negotiating the most favourable lease structure with all of the following proposed locations (see table 6 above):

- (a) Proposal No. 10 (Queens);
- (b) Proposal No. 16 (Brooklyn);
- (c) Proposal No. 12 (New Jersey);
- (d) Proposal No. 31 (New Jersey);
- (e) Proposal No. 20 (Westchester County).

98. All of the above proposals provide for savings, after only their initial proposal, sufficient to cover any error in judgement regarding the obligation of the UNICEF House lease. They all have an overall rating twice as high as the base case which provides a comfort level that the location can accommodate the operation of the organization over the long term. Finally, if required, the warehouse/storage functions can be accommodated in or very near to the buildings or developments to be considered. This would achieve as complete a cost-effective consolidation as possible.

99. The proposals offer the option and not the obligation to consolidate headquarters staff. The consultants, therefore, believe that they should be pursued even if UNICEF were to adopt a policy of non-growth for headquarters staff as the proposals are more cost-effective in the long term than maintaining the existing offices. This is due primarily to the fact that the per unit rental costs of the recommended proposals are less than the per unit rental costs at UNICEF House. It should also be noted that these five proposals are all more favourable than the two base cases, even excluding any additional benefits that may be derived through:

- (a) Negotiations to refine the cost structure and thereby secure an ownership position that would provide a build-up of equity for the organization;
- (b) Local community and city grants that are normally given to retain or attract such organizations as UNICEF. These can be in the form of relocation assistance, tax abatements and utility abatements;
- (c) Coordination with the local developer to provide, if possible, cost-effective hotel, conference and residential facilities that may be utilized by UNICEF.

100. The consultants believe that with the above, an improvement of between 10 to 15 per cent of the present value calculations for each proposal or an additional \$10 million and \$15 million in present value savings can be achieved.

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Recommended short-term strategy

101. Any of the five long-term proposals mentioned above and proposal No. 21 (Queens) mentioned in paragraph 103 below can provide for swing space or short-term space as needed prior to occupancy in 1995. As the investigation continues on these locations and others, opportunities could surface to introduce the short-term needs of the organization in the proposal and to have this considered as part of the overall economic package. Essentially the owners or developers can provide for interim premises on a very low-cost basis. This would also facilitate the eventual relocation, as a core staff function would be established at the new location during the transition period.

B. Changes that have occurred since completion of the consultants' report

102. Subsequent to the receipt and review of the consultants' report by the UNICEF secretariat, it was decided that, owing to UNICEF concern about the unpredictability of the public transport systems laterally across Manhattan, and the difficulty at peak travel times of transversing the Hudson and Lincoln Tunnels, a location in New Jersey would likely create operational difficulties and inefficiencies in the organization. Therefore, it was decided not to give further consideration to proposals Nos. 12 and 31 indicated above or to any of the other New Jersey locations that were identified in the study, especially in view of the fact that there are several other better located alternative options which also offer the possibility of significant long-term cost savings (see table 6 above).

103. In addition, some other changes have occurred which affect the rankings of the proposals set out in tables 6 and 11 above. Proposal No. 16 (Brooklyn) has leased part of the space originally offered in their proposal. The total space now being offered would only meet UNICEF requirements until about the year 2004, at which time another building would have to be built adjacent to the new building being proposed. There would also be a limit on the size of the second building which might be insufficient for the organization's further long-term needs. Therefore, proposal No. 16 has been eliminated from the short-listed proposals. Proposal No. 3 (Westchester) has been dropped because of its remote location in Westchester County, relative to the other proposals being considered in Queens and Westchester County. In addition, this proposal does not offer the financial advantages of proposals Nos. 10 and 21 in Queens and proposal No. 20 in Westchester County. Proposal No. 2 (Manhattan) was eliminated owing to the unsuitability of the building for UNICEF requirements. Proposal No. 4 (Long Island) was eliminated from further consideration owing to its location and the fact that the estimated savings compared to the base case are lower than several of the other more attractive proposals. On the other hand, proposal No. 21 (Queens) has been elevated in the rankings since information has recently been received indicating that this proposal will be significantly less costly than originally offered.

C. Conclusions and recommendations of the Executive Director

104. The Executive Director has carefully reviewed the report prepared by the consultants. He believes that the review has been extremely beneficial and has led UNICEF into a situation where, whatever choice is made, very substantial financial savings can be made, thus freeing additional resources for activities to support children and women in developing countries. However, he also believes that he must look beyond the financial framework to the broader situation, and that, therefore, three options present themselves to the Executive Board. Briefly stated, these three options are as follows:

(a) To move UNICEF headquarters to a Westchester County or Queens location as described under option 1 below (para. 105);

(b) The same as in subparagraph (a) above, but retaining three floors (40,000 rentable square feet) in UNICEF House as described under option 2 below (para. 106);

(c) To remain at UNICEF House, seeking another site in relatively close proximity, the two sites together eventually to house all New York headquarters (see option 3, para. 107 below).

Option 1

105. Except for retaining a small suite of offices consisting of about 2,500 rentable square feet, option 1 would involve a complete relocation of headquarters from UNICEF House to a location in either Westchester County (proposal No. 20), or the Borough of Queens in New York City (either proposal No. 10 or No. 21). The estimated financial implications of such a relocation are given below in tables 12 and 13, which compare the three proposals to the "base case" (table 12) and the "revised base case" (table 13). Both the Westchester County proposal (No. 20) and proposal No. 21 in Queens would be "build to suit" new construction, and proposal No. 10 in Queens is an existing building. It should also be noted that all three proposals offer UNICEF the opportunity to own the properties after the lease term.

Option 2

106. This option would retain three floors at UNICEF House (40,000 rentable square feet) and relocate the remainder of headquarters to one of the three locations described in the preceding paragraph. It is tentatively proposed that under this option, the following organizational units would remain at UNICEF House: (a) Office of the Executive Director; (b) Planning and Coordination Office; (c) Office of the Secretary of the Executive Board; and (d) Programme Funding Office. The estimated financial implications of option number 2 are given in tables 14 and 15, which compare the three proposals described in paragraph 105 to the "base case" (table 14) and the "revised base case" (table 15).

Option 3

107. Under option 3, UNICEF would accept the UNDC offer as outlined in paragraph 39 above and retain all of its current space (180,491 rentable square feet) at UNICEF House. Under this proposal, UNICEF would have the option of converting the 14th and 15th apartment floors into office space. A second building, which is not clearly identifiable at this time, would be sought in relatively close proximity to UNICEF House. The two sites together would eventually house all of New York headquarters. The second location could possibly be a lease, lease/purchase or direct purchase. The estimated financial projections for option 3 are given in table 16 below, which compares this scenario to the three proposals mentioned in paragraph 105 above.

Comparison of the three options

108. Table 17 below gives a financial comparison of the three options compared with the "base case" and the "revised base case".

Comments of the Executive Director on the three options

109. With regard to option 1, the Executive Director believes that a recommendation for a location away from the United Nations Development District needs a thorough review, especially of non-financial aspects. The disadvantages of distance from United Nations Headquarters and from permanent missions need to be carefully weighed against the possibilities of modern communications, and against the advantages of a one-location site with sufficient space and relatively low costs.

110. Concerning option 2, the Executive Director feels the elements outlined above for option 1 remain relevant, but that additional factors need to be taken into account. The advantages of having the Executive Office, the Programme Funding Office and the Office of the Secretary of the Executive Board near the United Nations would have to be seen against the disadvantages of split locations, most notably the separation of the Executive Office from the bulk of UNICEF staff.

111. With regard to option 3, the Executive Director believes that this review, including the negotiations that have taken place with UNDC and NYCEDC have produced an interim result that provides a good base for further negotiations. These will be needed to fully define the final financial picture. It is, at the same time, evident that a second building, relatively close to UNICEF House, with sufficient space available on attractive terms, would have to be identified if an option for a twin headquarters in New York City were to prove viable.

112. Therefore, the Executive Director recommends that:

(a) He continue negotiations with UNDC and NYCEDC with regard to their lease extension ownership proposal for UNICEF House;

(b) He identify, in collaboration with the consultants who conducted the market study, and in cooperation with NYCEDC, a possible suitable building in relatively close proximity to UNICEF House as described in paragraph 107 above;

(c) He continue to negotiate and refine the proposals already submitted, i.e., proposals Nos. 10, 20 and 21, and evaluate any other attractive additional proposals that may be offered;

(d) He conduct a review of the implications, other than financial, of moving most or all of central headquarters to a Westchester or Queens location. Such a review would be undertaken by a team, including both outside consultants and UNICEF staff, and would include an assessment of the experience, where relevant, of other organizations that have moved their headquarters from Manhattan to other boroughs and counties in New York;

(e) He report back to the Executive Board, through ACABQ, either at the next regular session of the Executive Board in April 1993, or at a special session of the Executive Board to follow the organizational session in February 1993;

(f) He be authorized, in order to meet short-term space needs, to lease on a temporary short-term basis, up to a maximum of 15,000 additional gross rentable square feet over the next two to three years, or until a permanent long-term space strategy has been implemented. This would be in addition to the 23,528 gross square feet currently leased on a short-term basis at 1 Dag Hammarskjöld Plaza, which is completely occupied.

113. The following notes relate to the data contained in tables 12 and 14 below:

(a) Base case: This represents maintaining existing premises, under current rent structures and renewing leases as required, as well as securing additional space in order to accommodate the growth projected (see paragraph 59 above);

(b) Financial summary: The present value, average annual and total cost for each proposal, including the base case, are shown in millions of United States dollars. The present value was calculated for the period 1991 to 2010 and discounted at the rate of 10 per cent;

(c) Space summary: The amount of space given in thousands of rentable square feet that would be secured under each proposal and the base case. Rentable square feet represents the square footage on which rent is paid and includes such areas as elevator shafts and fire stairs. Not all the figures for each are the same, as some proposals required taking additional space due to the manner in which the development or building is configured.

114. Except for subparagraph (a) above, the notes given above for tables 12 and 14, also apply to tables 13 and 15. As noted in paragraph 60 above, the

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revised base case scenario takes into account the UNDC offer of capping the rental rate for the 180,491 square feet currently rented at UNICEF House at \$35.50 per square foot through the year 2010 (see para. 31 above).

Table 12

OPTION 1: RELOCATE TO WESTCHESTER OR QUEENS AND RETAIN SUITE
OF OFFICES (2,500 SQUARE FEET) AT UNICEF HOUSE (COMPARED TO
BASE CASE)

Title location	Base case a/ United Nations District	Proposal No. 20 Westchester County	Proposal No. 10 Queens	Proposal No. 21 Queens b/
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Financial summary c/

(In millions of United States dollars)

Net present value 1991-2010	121.2	97.3	94.6	111.7
Estimated net present value savings compared to base case	-	23.9	26.6	9.5
Estimated savings compared to base case expressed in nominal terms	-	99.3	92.9	46.3
Average annual cost	16.8	11.8	12.1	14.5
Total cost	336.0	236.7	243.1	289.7

Space summary d/

(In thousands of square feet)

1991	314.4	314.4	314.4	314.4
1995	368.0	431.2	398.0	368.0
2000	427.0	431.2	427.0	427.0
2010	575.0	575.0	575.0	575.0

a/ This represents maintaining existing premises and renewing leases as required, as well as securing additional space in order to accommodate the growth projected (see para. 59).

b/ Information has recently been received indicating that this proposal will be financially more favourable than the figures shown. Data will be revised when new figures are received.

c/ Cost estimates for the three proposals include moving and installation costs.

d/ For purposes of correct financial comparison, space totals for proposals Nos. 20, 10 and 21 take into account the proposed retention of approximately 2,500 gross rentable square feet at UNICEF House to represent a suite (about six offices plus common and support area) of offices. The cost estimates also take this into account.

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Table 13

OPTION 1: RELOCATE TO WESTCHESTER OR QUEENS AND RETAIN SUITE OF OFFICES (2,500 SQUARE FEET) AT UNICEF HOUSE (COMPARED TO REVISED BASE CASE)

<u>Title location</u>	<u>Revised Base case a/ United Nations District</u>	<u>Proposal No. 20 Westchester County</u>	<u>Proposal No. 10 Queens</u>	<u>Proposal No. 21 Queens b/</u>
<u>Financial summary c/</u>				
(In millions of United States dollars)				
Net present value 1991-2010	114.2	97.3	94.6	111.7
Estimated net present value savings compared to revised base case	-	16.9	19.6	2.5
Estimated savings compared to revised base case expressed in nominal terms	-	76.0	69.6	23.0
Average annual cost	15.6	11.8	12.1	14.5
Total cost	312.7	236.7	243.1	289.7
<u>Space summary d/</u>				
(In thousands of square feet)				
1991	314.4	314.4	314.4	314.4
1995	368.0	431.2	368.0	368.0
2000	427.0	431.2	427.0	427.0
2010	575.0	575.0	575.0	575.0

a/ This represents maintaining existing premises and renewing leases as required, as well as securing additional space in order to accommodate the growth projected. The estimates take into account the offer of UNDC to cap the existing rent at \$35.50 per square foot through the year 2010 (see para. 60).

b/ Information has recently been received indicating that this proposal will be financially more favourable than the figures shown. Data will be revised when new figures are received.

c/ Cost estimates for the three proposals include moving and installation costs.

d/ For purposes of correct financial comparison, space totals for proposals Nos. 20, 10 and 21 take into account the proposed retention of approximately 2,500 gross rentable square feet at UNICEF House to represent a suite of offices (about six rooms plus common and support area). The cost estimates also take this into account.

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Table 14

OPTION 2: RELOCATE TO WESTCHESTER OR QUEENS AND RETAIN THREE FLOORS (40,000 GROSS RENTABLE SQUARE FEET) AT UNICEF HOUSE (COMPARED TO BASE CASE)

Title location	Base case a/ United Nations District	Proposal No. 20 Westchester County	Proposal No. 10 Queens	Proposal No. 21 Queens b/
<u>Financial summary c/</u>				
(In millions of United States dollars)				
Net present value 1991-2010	121.2	102.5	99.3	115.5
Estimated net present value savings compared to base case	-	18.7	21.9	5.7
Estimated savings compared to base case expressed in nominal terms	-	81.7	77.9	33.4
Average annual cost	16.8	12.7	12.9	15.1
Total cost	336.0	254.3	258.1	302.6
<u>Space summary d/</u>				
(In thousands of square feet)				
1991	314.4	314.4	314.4	314.4
1995	368.0	431.2	398.0	368.0
2000	427.0	431.2	427.0	427.0
2010	575.0	575.0	575.0	575.0

a/ This represents maintaining existing premises and renewing leases as required, as well as securing additional space in order to accommodate the growth projected (see para. 59).

b/ Information has recently been received indicating that this proposal will be financially more favourable than the figures shown. Data will be revised when new figures are received.

c/ Cost estimates for the three proposals include moving and installation costs.

d/ For purposes of correct financial comparison, space totals for proposals Nos. 20, 10 and 21 take into account the proposed retention of 40,000 gross rentable square feet at UNICEF House. The cost estimates also take this into account.

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Table 15

OPTION 2: RELOCATE TO WESTCHESTER OR QUEENS AND RETAIN THREE FLOORS (40,000 GROSS RENTABLE SQUARE FEET) AT UNICEF HOUSE
(COMPARED TO REVISED BASE CASE)

Title location	Revised Base case a/ United Nations District	Proposal No. 20 Westchester County	Proposal No. 10 Queens	Proposal No. 21 Queens b/
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Financial summary c/

(In millions of United States dollars)

Net present value 1991-2010	114.2	102.5	99.3	115.5
Estimated net present value savings compared to revised base case	-	11.7	14.9	(1.3)
Estimated savings compared to revised base case expressed in nominal terms	-	58.4	54.6	10.1
Average annual cost	15.6	12.7	12.9	15.1
Total cost	312.7	254.3	258.1	302.6

Space summary d/

(In thousands of square feet)

1991	314.4	314.4	314.4	314.4
1995	368.0	431.2	368.0	368.0
2000	427.0	431.2	427.0	427.0
2010	575.0	575.0	575.0	575.0

a/ This represents maintaining existing premises and renewing leases as required, as well as securing additional space in order to accommodate the growth projected. The estimates take into account the offer of UNDC to cap the existing rent at \$35.50 per square foot through the year 2010 (see para. 60).

b/ Information has recently been received indicating that this proposal will be financially more favourable than the figures shown. Data will be revised when new figures are received.

c/ Cost estimates for the three proposals include moving and installation costs.

d/ For purposes of correct financial comparison, space totals for proposals Nos. 20, 10, and 21 take into account the proposed retention of 40,000 gross rentable square feet at UNICEF House. The cost estimates also take this into account.

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Table 16

OPTION 3: RETAIN CURRENT SPACE AT UNICEF HOUSE AND LEASE OR
PURCHASE ONE OTHER BUILDING IN RELATIVELY CLOSE PROXIMITY

Title location	UNICEF House + one other bldg. in Manhattan a/	Proposal No. 20 Westchester County	Proposal No. 10 Queens	Proposal No. 21 Queens b/
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Financial summary c/

(In millions of United States dollars)

Net present value 1991-2010	116.0	97.3	94.6	111.7
Estimated net present value savings compared to revised base case	-	18.7	21.4	4.3
Estimated savings compared to revised base case expressed in nominal terms	-	72.4	66.0	19.4
Average annual cost	15.5	11.8	12.1	14.5
Total cost	309.1	236.7	243.1	289.7

Space summary d/

(In thousands of square feet)

1991	314.4	314.4	314.4	314.4
1995	368.0	431.2	368.0	368.0
2000	427.0	431.2	427.0	427.0
2010	575.0	575.0	575.0	575.0

a/ This represents maintaining existing premises and renewing leases as required, as well as securing additional space in order to accommodate the growth projected in one other building only. The estimates take into account the offer of UNDC to cap the existing rent at \$35.50 per square foot through the year 2010 (see para. 60).

b/ Information has recently been received that this proposal will be financially more favourable than the figures shown. Data will be revised when new figures are received.

c/ Cost estimates for the three proposals include moving and installation costs.

d/ For purposes of correct financial comparison, space totals for proposals Nos. 20, 10 and 21 take into account the proposed retention of approximately 2,500 gross rentable square feet at UNICEF House to represent a suite of offices (about six rooms plus common and support area). The cost estimates also take this into account.

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Table 17

SUMMARY OF OPTIONS 1, 2 and 3 COMPARED TO THE BASE CASE AND
REVISED BASE CASE

(In millions of United States dollars)

Title	Base a/ case	Revised b/ base case	Option 1 c/ Proposals Nos.			Option 2 d/ Proposals Nos.			Option 3 e/ UNICEF House plus one other building
			20	10	21	20	10	21	
Location	United Nations district	United Nations district	West- chester	Queens	Queens	West- chester	Queens	Queens	United Nations district
Net present value	121.2	114.2	97.3	94.6	111.7	102.5	99.3	115.5	116.0
Average annual	16.8	15.6	11.8	12.1	14.5	12.7	12.9	15.1	15.5
Total	336.0	312.7	236.7	243.1	289.7	254.3	258.1	302.6	309.1

a/ See para. 59.

b/ See para. 60.

c/ Represents a relocation to Westchester County or Queens, but retaining a suite of offices (approximately 2,500 square feet) at UNICEF House.

d/ Represents a relocation to Westchester County or Queens, but retaining three floors (40,000 rentable square feet) at UNICEF House.

e/ Represents retaining current space at UNICEF House and securing one other building in relatively close proximity to accommodate the projected growth requirements.
